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Human Capital is the Most Valuable Resource of any Country

In all likelihood, few people have written more articles in *Vísbending* than you have, and no one has written as much over the years; you have been practically a regular contributor since the journal began some twenty years ago. Do you remember what you wrote in your first *Vísbending* article, and when it was published?

It was in the summer of 1987. A new three-party coalition had formed a government in Iceland, with promises to keep the exchange rate for the Icelandic *króna* steady, aim at eliminating the foreign trade deficit, reduce foreign debt as a proportion of GDP and bring down inflation. The article I wrote then was called, "Is it possible to maintain a steady exchange rate for the *króna*?" and in it I tried to portray for the reader what was needed to achieve this objective, emphasising strict restraint in monetary and fiscal affairs. A few months later, there was a devaluation, to give the fish processing industry yet another shot in the arm, and providing me with an opportunity to take a closer look at the question in *Vísbending*. I was, in fact, at this point writing a long report on the exchange rate and inflation commissioned by the Central Bank; it was published in the Bank's journal *Fjármálatíðindi* the following year.

When you look back over the debate and the main economic issues of contention during these two decades, how has discussion of economic questions changed? What issues have been cleared from the table and what disputes have become practically chronic?

Economic debate has made considerable progress during this time, not least because it has gradually shaken off its party political constraints, in addition to which economic expertise has grown drastically. The two are closely connected. For a long time in the past, debate followed the current trends: politicians and journalists, and others who were at their beck and call, nagged away back and forth endlessly about economic issues, seldom with any special comprehension, so that in truth there was practically no substance to the economic debate. It was generally a completely sterile squabble, with a few important exceptions, of course, and the results on the economic scene were in accordance with that. I never tire of pointing out that it was the writer [Halldór Kiljan Laxness](#) who exposed the gross inefficiency of Icelandic agriculture as a result of the protectionist farm policy of the time, applying exactly the right arguments, while politicians, economists and others simply gazed with unseeing eyes in other directions. During the entire period from 1930 to 1960, the economic situation in the country was practically a disaster, despite the fact that wartime profits clouded the view and confused some people.

A new day dawned with the so-called "Decade of Reconstruction", 1960-70: the Reconstruction government lifted the ban on fruit imports, among many other things. The improvements which the Reconstruction coalition undertook, though, failed to go far enough when viewed from a modern-day perspective, not far enough at all. And as a result the vicious economic circle continued after 1970, although the proportions now had changed completely. Granted there was substantial economic growth and full employment most years, even overfull employment, resulting in high inflation which distorted the economic infrastructure, accumulation of massive foreign debt far exceeding productive investment and perennial inefficiency and waste in many areas, not least agriculture and fisheries. Not surprisingly, as Icelanders were a long way from the sound market economy which characterised other countries in this part of the world. The public sector in general was operated with a considerable deficit, although this was not clearly evident in public accounts or other official reports, because the state accounts only covered public operations in the very narrowest sense. This was, in fact, the impetus behind the first article I wrote on economic affairs in the daily *Morgunblaðið*. This

was in the autumn of 1985, two years after I moved permanently back to Iceland in 1983 after spending 13 consecutive years abroad. During the first two years after I returned home, I thought it was advisable not to get involved in the economic debate: I thought I should give myself good time to fill my lungs before I started singing. During my years studying in Manchester I had been in contact with *Morgunblaðið* through its editor, Matthías Johannessen. I remember translating a full-page article on fisheries management for the paper in the winter of 1971-72.

But eventually the dam broke: when the budget was presented in the autumn of 1985, superficially it seemed to be indicating yet once more that the public finances were in good shape, despite the high inflation. I thought it had to be pointed out that things were definitely not what they seemed, because, viewed in a wider perspective, the public sector was operating, just as it had for decades, with a sizeable deficit and this deficit was contributing to the overheating of the economy. This was gradually put right: after I'd written practically the same article on the subject in *Morgunblaðið* and *Vísbending* for several years in a row, with variations on the theme, government finances were gradually brought under better and more comprehensive control. Which was the whole point of the exercise. It also seems to me that my views, and those of many others in the 1980s and preceding decades, on the damage done by rampant inflation, did finally drive the point home. My doctoral thesis in 1976, in fact, dealt with this subject. The idea came from Iceland, although the country is nowhere mentioned in my thesis. Now it's accepted practice to manage economic policy so that price levels remain fairly stable, although this has sometimes proved difficult.

Various other reforms have taken a longer time. I wrote on state bank ownership, or to be specific, opposed such ownership, in *Morgunblaðið* in 1987, as well as in *Vísbending* and *Fjármálatíðindi*. With a mixed reception at the time. And not until now, fifteen years later, does that issue look to be almost resolved. I wrote my first article on the European Union (then the European Community) in *Morgunblaðið* in 1987 – not in order to declare my support or opposition, but simply to raise the subject and review some of the advantages and disadvantages. I expected that the political parties would have to wake up and face this question sooner than has in fact been the case, but the delay on this issue is easier to understand than in the case of the banks, since the EU question is by nature a highly political one. In addition to which most of the political parties are split right down the middle in their position on EU accession. This split is glaring evidence of the simple fact that the party system in Iceland was built for a completely different society than the one we live in today. In addition to which there is by no means unanimous accord among European economists as to the benefits of their own countries' EU membership, although most of them are actually in favour of membership, either for economic or political reasons, or at least it looks that way to me. Economists naturally can disagree on political issues, just like anyone else. On the other hand, there is no similar disagreement among competent economists as to the connection between government deficits and inflation, nor on public ownership of banks, actually. Those are economic and not political questions.

Similarly, we seem to me to be taking an overly long time to put our fisheries management system in sound and proper order. The arguments in favour of a fishing fee have been around since the early 1970s, and they have been made again and again, in a variety of versions, practically unceasingly since that time. All the same, it's only now, some 30 years later that *Althingi* [the Icelandic parliament] has passed a law on a fishing fee, and that in a manner that, many people fear, makes it likely that the fee will only be paying lip service to the demands and serve to confuse the issue. The fact is that four of the country's five political parties have now formally expressed their agreement with our arguments in support of a fishing fee, so now all that remains is to translate the spirit of the legislation into practice: the fee naturally has to have teeth if it is to have its intended effect.

Then there is the agriculture question. The cost of protectionism has decreased, true enough, but almost exclusively because the number of farmers has dropped. In 1999 protectionist policies cost Icelandic consumers and taxpayers USD 36,000 for each man-year in agriculture according to OECD reports, or the equivalent of ISK 240,000 per month for each man-year in farming. Nonetheless, steps have been taken in the right direction. These days you can actually buy imported cheese and even meat in the stores in Iceland, although at outrageous prices because of the duties. The struggle against the market alienation of agriculture has thus not been completely without success. I'd like to mention newspaper editor Jónas Kristjánsson especially in this connection, as he has steadfastly presented solid and sensible arguments on this issue for some 30 years now and never given up the struggle. The slow pace of progress by the Icelandic authorities, however, has convinced me that import practices will not be put to rights until we become EU members – not that Brussels is a paradigm of virtue in this regard.

There is still one more task which remains to be done, which is to ensure sufficient flexibility of the labour market. We still have a situation where a few leaders of employees' and employers' associations control for the most part wage developments, as is common enough in many European countries. This situation is highly unfavourable and has contributed in no small degree to the high unemployment plaguing Europe in recent decades. For a long time it was a major factor in the high inflation and growing foreign debt here in Iceland, at least as far as I can see. There were a number of indications that interest in labour market reform was growing during the economic downturn from 1987 to 1996, but the upswing after 1996 seems to have cooled interest in that direction. The labour code was, admittedly, altered slightly a few years ago, but those changes did not go far enough. In fact, several times in recent years eruptions have been on the verge of shattering the peace in the labour market, coming perilously close to wreaking havoc in the economy as was so often the case before, but so far business has narrowly escaped. The concept of "peace in the labour market" in fact says all that needs to be said on this matter. The danger posed by current arrangements lies in the fact that a few leaders of employees' and employers' associations are entrusted with the power of keeping the peace or blowing the war trumpets, and by so doing paralysing the whole economy whenever they choose. "Peace in the product market" is a concept which doesn't exist, for the simple reason that the market for products operates like a market should, without any central control.

Many of your articles in *Vísbinding* have drawn a lot of attention and comment, and often sparked avid debate among economists. Are any of those articles especially prominent in your mind because of the debate that followed in their wake?

No, not really. Often I get no response at all. Of course, I find it encouraging to learn that people – economists or anyone else – take notice of what I write, but it's not something I dwell on. I do appreciate it when all sorts of people sometimes get in touch with me because of something I wrote. I have made an effort to present my case as cautiously and calmly as my arguments allow, in order not to leave myself open to attack. As a result, some people might find my arguments a little on the dull side. I describe this in more detail in the introduction to one of my essay collections *High Time*. Words are costly: one incautious word – and everything can be in an uproar for precious little reason. I have done my utmost to avoid this. I never publish a newspaper article without having people from different backgrounds read it over in advance, to point out what could be improved. To all of these people – and there are a great number of them! – I am very grateful. Proceeding in this manner has meant I've been successful, at least to my mind, in avoiding calling over myself a tidal wave of protest, even though I've sometimes dealt with sensitive issues and given major vested interests an uncomfortable nudge. I have never needed to waste my time in retracting statements or responding to objections or explaining what I meant by this or that. Farmers and others have

sometimes complained at my criticisms of protectionist agricultural policies, naturally enough, but other economists have not done so, nor would they have much cause to. Fishing vessel operators, together with a few economists, have opposed my views and those of other proponents of a fishing fee in fisheries management; that's also only normal and to be expected. Politicians have sometimes sent me less than friendly comments, but I don't worry much about that either.

I have sometimes wished that Iceland were the sort of country where I didn't feel the need to spend so much time and effort in writing on economic issues for the general public and other economists. It's really a sideline – and subsidised, too, in fact, on my part. My primary task, like that of most other academics, is writing scholarly papers for international journals and books for international publishing houses. That's my mainline. Some of my colleagues abroad warned me years ago against getting involved in economic issues at home, "It drains your energy", they claimed. All the same, when I look back I can't say that I regret it, although it very likely has to some extent reduced my research productivity. It's given me other things instead.

Professor Gary Becker, in Chicago, has expressed similar sentiments. The US magazine *Business Week* asked him quite a number of years ago to write an article for the magazine every three weeks. Becker felt he couldn't spare the time for that, as he was unused to such writing, but all the same he mentioned the offer to his friend Milton Friedman for his opinion, as Friedman had for years been an active columnist, for *Newsweek*, among others. The answer wasn't long in coming: Do it, definitely! That's the best way to learn how to write! Friedman was of the opinion that his own presentation of his case in scholarly writings had improved markedly after he embarked on his journalistic career. Becker has published his columns in *Business Week* ever since. They are generally superb – such as, for example, the column where he supports implementing a fishing fee in Massachusetts using exactly the same arguments those of us supporting a fishing fee here in Iceland have been advancing for years.

Another US columnist I want to mention from among the ranks of economics professors, Paul Krugman, writes acerbic and often exceptionally clever articles for the *New York Times* every four days. Krugman has said that he only accidentally found out how well he was able to write about economics in comprehensible terms. He didn't need to do so during his early years, since then he wrote only for other economists. He took leave from his academic work for a short while when Ronald Reagan was president, to work for the president's Council of Economic Advisors in Washington. That year he wrote the bulk of the Economic Report of the President, a good-sized volume that was and remains widely read, and in doing so Krugman found out just how well he could write on economic issues in plain English – and he has scarcely stopped since then. Still, it's rather rare that US economics professors write articles intended for the general public, although this has increased in recent years. On the other hand, there is a long-standing tradition among economic scholars in many areas of Europe to make a contribution to debate on economic and other national issues. Some are more active than others: my friend Thráinn Eggertsson, for example, wrote many sparkling essays in the newspapers in the old days. It is partly due to his influence, and that of my Swedish colleagues, that I was led down that path here in Iceland and also to a much more limited extent in Sweden.

When you look back over what you've written during the past twenty years, are there some writings you feel have been more successful than others, i.e., which arguments and views have stood the test of time well and which have been less fortunate?

The answer is the same as before: No, not really, at least not yet at any rate. Not that I am incapable of changing my opinion in view of new circumstances. Since you're looking for a confession, I'll give

you an example. To begin with I was rather sceptical, like many of my colleagues at the University of Iceland, about the government's decision to establish the University of Akureyri. We felt it was ill-advised, and would be spreading our efforts too thin. As long as the state keeps the University of Iceland in such tight financial straits, we thought, what is the point of establishing another state university in another part of the country? My experience of the Technical University at Luleå, in the far north of Sweden and just south of the Arctic Circle, made me change my opinion. It opened my eyes to the tremendous importance for settlements in the north, whether in Iceland or Sweden, to have their own university and all that this implies. Not least important is the attraction it exerts: the ability to keep people at home and to attract new people to that part of the country. I went to Luleå every year for many years and watched how things developed there, and I changed my mind. I did not publicly express my opinion on the establishment of the University of Akureyri in 1987, it's only now that I say this, and wish the people up north all the best in their endeavours.

The issues I have mainly concerned myself with in my writings on Icelandic economic affairs are of such nature – and here I mean in particular economic policy making in a broad sense and economic structure: public finances, monetary policy, the exchange rate, the labour market, agriculture and fisheries policy, European issues, education – that I haven't seen any reason to change my opinions on them. The situation in this country has in many respects moved closer to my views as time has progressed, as I had intended, and not the reverse. It does, of course, try your patience somewhat, when progress inches along at a snail's pace, but then there's nothing to do but grit your teeth, roll up your sleeves and keep pushing.

Some people seem to have misunderstood the title of the book *High Time*, that I mentioned here earlier: They concluded wrongly that I was predicting, this was in 1995, that the country's economy was headed towards rack and ruin. But I have never thought this to be the case; quite the opposite, I have claimed and written that democratic nations almost never end up in disaster. And we do have a democracy in Iceland, although it limps along under an unjust system of electoral districts. The handicap will admittedly decrease somewhat following the next parliamentary elections, in the spring of 2003, but it will far from disappear. Reform of electoral districts in Iceland, like most other urgent reforms, are almost always too little, too late, out of regard for – or fear of – the wardens of the status quo. A temporary upswing in the economy of a country, as occurred in Iceland from 1996 to 2000, in itself makes no difference to the long-term growth potential of the national economy: these are two practically unrelated phenomena. An upswing can, on the contrary, reduce the potential for long-term economic growth, especially if it is fuelled by foreign loans, resulting in inflation and in addition reducing public interest in reforms which would strengthen the foundations of the economy and its potential for long-term economic growth. It looks to me as if the upswing 1996-2000 has slowed reforms that got underway in the preceding years. During those years, a lasting economic stagnation since 1987 contributed to convincing people of the necessity of undertaking important restructuring. Foreign capital flows to and from Iceland were completely liberalised during this time and Iceland became a member of the EEA Agreement. The economic downturn of the past year or so has similarly played a part in convincing the authorities of the necessity of finally privatising the state banks.

John Maynard Keynes said that the actions and positions of those in charge were little else but the products of defunct academic scribblers. Friedrich Hayek called politicians, "peddlers of used ideas". To what extent do you think that the economic debate over the past twenty years has found its way into economic policy here in Iceland? What has been successful and what discussion or ideas have not yet received the attention they deserve?

I think the discussion has, on the whole, borne good results. I think, in retrospect, that Icelandic economists have had considerable success, although less than we could have had, or would like to have had. One of the reasons for this is, for instance, a perennial imbalance in the country's educational system, and in fact throughout most of Europe. Only those people who intend to become economists or business administrators study economics. I'm of the opinion that economics should be a substantial part of the secondary school curriculum, the equivalent of physics and chemistry, for instance. This is not the case at present and it's imperative to change that situation. There's no shortage of interest among youngsters, if the experience in the US is anything to go by, since there university students have the opportunity at the age of 18 to acquaint themselves with the basics of economics and the overwhelming majority gladly avail themselves of the opportunity. Economics is, or at least it can be, an enormously entertaining subject, if you have any sort of interest in the world around you. The tolerance that the general public here in Iceland has shown, concerning various sorts of waste which has been going on for a least as long as the Republic has existed, or longer, and has burdened the nation considerably, has been greater than it would have been if sufficient economics had been taught in secondary schools.

The opposition to free trade is generally the result of people failing to comprehend the more than 200-year-old arguments behind the idea of free trade. If the man on the street had been given sufficient opportunity at school to acquire the basics of the theory of international trade, the persistent suspicions towards free trade as a benchmark for economic management would disappear like dew upon the sunrise, except, of course, among those who profit directly from trade restrictions. In such case we would have entered EFTA before we actually did, if you ask me, and we would be farther along the road to EU membership, because trade expansion is the main economic argument for membership. Nonetheless, there is no doubt in my mind that the Icelandic economy has, in various sectors, made great progress in recent years. The country's economists have played no small part in that, both those who serve as public officials within the government and others who have found a place elsewhere in the chain of production, farther from the political scene. The National Economic Institute, for instance, made a highly positive contribution under the direction of Jón Sigurðsson and then Thórður Friðjónsson. To my mind, the dissolution of the Institute and scattering of its personnel in 2002 was an act of sabotage.

I've already mentioned a few examples of progress in the right direction, for instance in public finances. Much has been accomplished, although there are various things which remain to be done. It's not especially difficult to balance the national budget if the state neglects many of the important tasks that have been entrusted to it. There is still a lot more funding required for education, health care, law enforcement, etc., as everyone knows. The state appears to be incapable of making up that shortfall. When the public contribution to these areas has reached a satisfactory level, or the state has introduced the structural changes necessary to ensure them adequate financing without overburdening the private sector with taxation, debt accumulation or inflation, only then will it really be possible to praise the authorities for their positive achievement in public finances. At the University of Iceland, for instance, we're in a position where state allocations are too low and at the same time the University is prohibited from collecting the income it needs, for instance, by charging tuition fees. The state may perhaps be justified in either of these actions, but not both. Health care services face the same problem. The question is always reoccurring, as to why public authorities have performed so poorly in these important areas, not only in Iceland but in many other countries as well.

Another example: It is a step in the right direction when the Central Bank of Iceland has finally been made constitutionally independent of the national government. It still remains to be seen, however, whether this formal change will in fact ensure the Bank increased independence. Two of three

Central Bank directors were until recently former politicians, who had ended up in bank because of this and for no other reason; one of them, admittedly, has now left and been temporarily replaced by a capable bank official who is presumably just waiting until one of the party faithful is appointed to the position permanently. An independent Central Bank needs a different sort of direction. I advanced this point of view in 1993, reflecting the emphases that were then making headway in political and banking circles in neighbouring countries, but at the time it was like pouring water on a duck's back. When the time comes to replace one of the bank directors, all discussion centres on what politician is to "take home the prize", as some people put it without so much as blushing. In fact it has occurred not once but twice since that time that the Minister responsible for making the appointment has as good as appointed himself to the position of Central Bank governor. There's practically an established tradition of so doing.



Your father, Gylfi Th. Gíslason, is a highly educated economist who for many years taught in secondary school and university, and has written many books on business and economic questions. For a good length of time he was both Minister of Education and Minister of Commerce, as well as being the Chairman of the Social Democratic Party from 1968 to 1974, and in so doing has had a tremendous influence on the development of both educational and economic affairs in Iceland. To what extent has he influenced your own career as an economist and ideologue?

Others will have to judge that question. One thing is certain: he has never tried to influence my opinions. What's just as certain is that we've spent a lot of time talking together through the years

and still do – not just about economics and politics, but literally about everything under the sun. We have always got along well together, and our interests lie much in the same direction. I received my training as an economist, however, in the UK and the US, while he studied in Germany. I have kept far away from the political scene; he spent a major portion of his working life as a politician. This may have meant our emphases vary slightly, but I suspect our natures tend to lie in the same direction. My own ideas of right and wrong I've inherited from both my parents, I expect, and their parents. Both my grandfathers were actively involved in politics: one was a poet and editor, an ally of Hannes Hafstein [Iceland's first Prime Minister following Home rule in 1904], who wrote plenty about politics and many other subjects, but withdrew from politics shortly after the present party system was established; the other was a medical doctor who was an MP for several years for the Social Democrats.

I was well past 30 and had been working abroad for almost a decade when I moved back home to Iceland in 1983, as I mentioned earlier. My father and I then became colleagues in the Faculty of Economics and Business Administration at the University of Iceland, the faculty he had built from scratch years ago together with Professor Ólafur Björnsson. Only a few years after I came home Gylfi retired from the University, so our years of co-operation there were not many.

After you completed your doctorate at Princeton in 1976, you worked for five years as an economist at the International Monetary Fund (IMF) in Washington. What did your stay there teach you?

Those were good years, and highly instructive. It was part of my plan to seek a position with the IMF following my studies and not one as university lecturer, because I wanted to acquire a broader experience of economic management. I wanted to get hands-on experience and get to know the real world a bit. IMF was and is, to my mind, among the best and most enjoyable of schools you can imagine for the purpose, exactly because its undertakings are so varied. I worked for that department of the Fund which was and is the neural centre and stimulus of its activities and during these years I travelled to all corners of the world with delegations negotiating loans and providing macroeconomic advice, even though I also found time for my own research. I learned a lot, it seemed to me, from older and more experienced colleagues. The IMF is an incredibly entertaining and lively workplace, because the people working there are so varied and capable, and in addition have so many interesting experiences to relate from around the world.

My acquaintance with the problems of poor nations began during these years and kindled my interest in economic reform in the poor countries of the third world – an interest which has stayed with me right up until the present day and has marked my research to a growing extent in recent years. In fact, I have continued to work a bit with the IMF, both at research and training of officials in the Fund's member states. If I had begun academic work immediately upon concluding my studies, my research interests and choice of subjects might well have taken other directions. I thought it might turn out like that and decided as early as my secondary school years prior to 1970 to follow this course: to acquire practical experience in economic management following my studies, preferably with the IMF, and after that look for a university position – and that was the way it turned out. When I had worked at the IMF for two years I received an unexpected offer from the Institute for International Economic Studies at the University of Stockholm to work as visiting researcher. I had never spent any length of time in the Nordic countries and was pleased to accept this offer, which was later followed by an offer to move there permanently in a full time research position. I accepted that offer, feeling that I'd spent long enough at the IMF and in Washington. I was on my way home: I didn't intend to be spend my life as an Icelander living abroad.

The IMF has been strongly criticised in recent years, first for its lack of action in Russia after the Communist collapse there in 1991 and then for too much intervention in the wake of the financial crisis in East Asia 1997-98. There the IMF was accused of giving advice that did not turn out well. And now the IMF is once more in the line of fire because of the crisis in Argentina. I think that this criticism is to some extent ill-advised and unfair. The problem in Argentina is partly the result of an obsolete constitution, which makes rational economic management difficult because it gives individual governors around the country authority to print money and thus fuel inflation. This constitution is a leftover from times when the capital Buenos Aires was far removed from the country's various settlements due to poor transportation. The complete failure of the political class has not helped, either. When the current Argentinean president entered office a year ago, he stated publicly: "The political leadership of this country is shit (that's his word, not mine), and I include myself in that category." The IMF is fortunately not equipped with an arsenal sufficient to resurrect Argentina under such circumstances. The country's weak democratic traditions have no doubt played a considerable part in how badly things have turned out; hopefully they'll be able to get things back in shape again.

What scholars, either here in Iceland or abroad, have over the years had the greatest impact on you as an economist? And why?

I think I have, at least to the extent that I can judge myself, rather been influenced by my subjects, travels and reading than by the men I studied under or worked with. And they are quite a few in number. Apart from those who taught me or worked with me over the years, I have at this point co-authored essays and books with some sixteen persons from ten different countries, as well as with two Icelanders, former students of mine, Gylfi Zoega, who has recently become a professor in the Faculty of Economics and Business Administration of the University of Iceland, and Tryggvi Thór Herbertsson, the director of the University's Institute of Economic Studies. I have both enjoyed and profited from my co-operation with all of these people.

I think I owe most, though, to [John Maynard Keynes](#), whom I mentioned previously and I only got to know, naturally, second-hand and from reading. He was an economist, the author of modern macroeconomics as we know it and a man after my own heart: a man of many talents, and many interests, driven by an unquenchable thirst for reform and strong sense of justice – besides being a writer with the best of them. My admiration for him is the same sort as I feel for the Icelandic independence leader [Jón Sigurðsson](#), poet and entrepreneur [Einar Benediktsson](#), and writer [Halldór Kiljan Laxness](#). I actually treated the three of them together in a television series on the history of economic management in Iceland a few years ago. It's tragic to think how Keynes died in the prime of productive life, only just over sixty years old; men like him need to live to be a hundred.

Through the years I have also learned to appreciate the men whose shoulders Keynes stood on, especially [Adam Smith](#) and [Alfred Marshall](#). Smith was a Glasgow philosopher and made economics an independent subject and scholarly pursuit. His works are a treasure trove of original and entertaining ideas – the travels of a man who almost never left home, but rather travelled in his mind by listening to the stories others told of distant countries. Marshall taught Keynes at Cambridge and is rightly referred to as the father of microeconomics. He wrote a textbook, which several generations of economists read for both enlightenment and pleasure, and still do. It's absolutely bursting with refined brilliance.

Without making little of anyone, I think the Swedish economist Assar Lindbeck has, perhaps, had more influence on me than my other colleagues. He is the leading Swedish economist today, and was one of my closest colleagues for many years. We co-authored some six papers, in particular on trade

unions and labour market issues. He's a man who has applied his diverse talents to popular enlightenment, research and policy advice with great success in all three fields; and he built up a splendid research institute at the University of Stockholm and directed it in a singly capable manner for a quarter of a century. But he also exhibits painting as a pastime and actually composed and performed a clarinet concerto in Luleå in 1948. Assar is over seventy now, but shows no sign of slowing down, writes and writes. He's not one to give up until the game is over.

Do you remember any turning points in your life, in the history of Iceland or world history, which changed your opinions or priorities?

My life has sailed a fairly steady course, no major turning points there, at least not yet. I have fine facilities at the University of Iceland, and good friends and colleagues both there and abroad, in addition to which I am wonderfully pampered at home. My wife backs me up 100% and makes sure I get the opportunity to work that I feel I need. Similarly, Icelandic history has been rather uneventful sailing, at least in my time. Not much there to upset me. World history is another story, though. There's hardly been a dull moment there. And there's one event that stands out above all the others during the latter half of the 20th century: the collapse of communism. This event changed the lives of hundreds of millions of people – and no less in the world of economists, as you can well imagine. I was one of those people who were drawn into the whirlpool it set in motion. Ever since my university years in Manchester I've had a great interest in Russia and Eastern Europe. I was deeply stricken by the way the communist dictatorships destroyed the lives of two whole generations in Central and Eastern Europe, of three generations in the USSR. No economist can watch such incredible things happen without being affected. This was what prompted me to write a book, one of the first of its kind, together with two of my Nordic colleagues, which was intended to provide general readers in former communist countries with an insight into the market economy. I have also written several essays on the problems of transition countries, and travelled fairly extensively in these countries. After I got to know Eastern Europe first hand, it has seemed to me that the problems of Eastern European countries, before and after the transition, cast useful light on the various flaws in the economic situation here at home. Not that it really came as a surprise: the ingrained market alienation in many areas here in Iceland and the centralised control beyond the Iron Curtain were symptoms of the same disease. At about that time my university colleague, [Guðmundur Ólafsson](#), sat down together with another colleague to write up a draft "500 Day Plan" for the introduction of a market economy in Iceland, to the great amusement of himself and many others, with the exception of the ruling government, if I remember correctly. This Eastern European intermezzo has been exceedingly interesting and entertaining.

In recent weeks the government has sold its holdings in both Landsbanki Íslands and Búnaðarbanki to core investors, which could be regarded as a major liberalisation of the banking system. The reforms in this market have, nonetheless, taken more than a decade since, as Jón Sigurðsson [former Minister of Commerce and Central Bank Governor] said in an interview in *Vísbinding* last year, the Independence Party obstructed such reforms in the early 1990s. To what extent has the timing affected market developments and what impact is this liberalisation likely to have on Icelandic business?

Jón Sigurðsson's description of the Independence Party doesn't come as a surprise, not to me. The privatisation of the commercial banks took far too long. It was scarcely encouraging to follow at first hand the rapid privatisation of the former state banks in Eastern Europe during the past decade, compared with the snail's pace of events here at home. The refrain was and is: "We're taking things at a walk." This is a direct quote from one minister, who was describing the government's listless

efforts in another matter. It can be costly to move at a walk, when the whole world is cantering ahead.

The state has not proved to be a prudent bank owner in Iceland. Quite the opposite; the political parties have mercilessly abused the banking system to their own advantage and that of their supporters right from the start. That's a story some historian should take the time to record, to preserve the truth of the matter for future reference. But finally the end of political party dominance in the banking system is in sight, and high time. Not that there aren't exceptions to the rule that commercial banking is best left to the private sector, but to my mind there has been such glaring inefficiency in banking operations here in Iceland, as you can see, for instance, by the large interest rate differential between lending and deposit rates, that to my mind it's imperative that the connections between the banks and the political parties be severed by selling them into private hands. The optimal solution would be to involve foreign owners in their operations to strengthen the banking infrastructure in Iceland and ensure their independence towards the state and special interest groups; hopefully that will be the next step.

For a long time now, you have been an advocate of a resource fee in fisheries, while at the same time pointing out that the Icelandic economy is more than just fisheries. The fishing industry is a highly protected sector and, as has been pointed out, Icelandic fisheries are a key issue in the debate on Iceland's EU membership. PM Davíð Oddsson has said that transferring Icelandic jurisdiction over the fishing banks to Brussels would mean surrendering our economic independence. To what extent have fisheries influenced economic issues in Iceland and how justified is that?

Fisheries have always enjoyed state protection, just like agriculture, both openly and behind the scenes. Before the 1960s reform, fisheries were operated with direct public subsidies. State expenditures on fisheries were then cut back from 43% of total expenditure to only 3% in only two years, as is attested to in the volume of historical statistics *Hagskinna*. The resources thus released were devoted to education, health care, social security – and agriculture! The Icelandic *króna* was devalued to compensate for this, to keep the fishing industry afloat. Thereafter the currency was devalued practically any time it suited the whims and needs of vessel operators, so the industry hardly needed to worry about its finances after that; moreover, it had ready access as well to subsidised loans from state-run banks and funds. This arrangement encouraged sloppy operations, inflation and the accumulation of foreign debt. Currency devaluations upon request were eventually stopped, and the practically automatic granting of loans by banks and funds to companies in fisheries gradually reduced, but not until the quota system had been introduced, in 1984. Since that time, the fishing industry has been supported with allocations of fishing rights without charge, which has for instance enabled various companies to avoid bankruptcy, service their debts to the banks and drag their feet on restructuring. The UN Food and Agriculture Organisation (FAO) rightly enough defines the allocation of fishing rights without charge as aid to fisheries.

The quota system has encouraged restructuring in fisheries compared with prior arrangements with unrestricted fishing, there's no doubt about that. On the other hand, the quota system has delayed and obstructed restructuring if compared with what could have been achieved with a well-conceived fishing fee. The reason is simple and well-known: state aid saps the energy of industry. It is true enough, however, that government control of this sort places power and influence in the hands of the recipients. In my opinion, the Federation of Icelandic Fishing Vessel Owners has abused this power. They are the ones primarily responsible for delaying the necessary reforms to fisheries management and the debate on Iceland's EU membership. It's surprising, actually, that other interest organisations in commerce and industry seem prepared to tolerate this messing about year after year. Iceland is the only country in Europe where the Confederation of Employers and the Federation of Trade or their

counterparts are silent as the grave on European issues. This simple fact is evidence enough, to my mind, that the close connections between industry and politics, which have long since characterised – I would almost say branded – the Icelandic economy still haven't been severed decisively. Companies disregard the interests of their owners and customers without a qualm for the mere sake of not rocking the political boat. These organisations don't even attempt to hide their close connections, they even flaunt them, as you can see from their annual conferences, where the keynote speakers are usually ministers. The Federation of Icelandic Industries are in a class by themselves in this regard: there things are as they should be, since they operate in the same manner as industrial organisations in other countries.

History has a few things to teach us here. When fisheries were developing alongside of agriculture, they faced an uphill battle, because to begin with agricultural spokesmen regarded fisheries as a threat to the traditional Icelandic means of production in the countryside and to rural culture. Fishing villages and the people who settled in them were the subject of never-ending attacks from agricultural proponents. Nonetheless, people did manage to build up fisheries into an important economic activity and the vessel operators eventually took their place beside the farmers. When manufacturing began to make its presence felt, the story repeated itself: the established leaders of industry saw various problems with industrialisation. It is possibly from this point of view we can understand the opposition of Ólafur Thors, managing director of Iceland's leading fisheries company Kveldúlfur for a quarter of a century and later Prime Minister, to Einar Benediktsson's ideas at the time of hydro-electric development of the country's waterfalls and industrialisation. Ólafur Thors probably regarded manufacturing in the same way Jónas Jónsson frá Hriflu [an influential politician and avid spokesman for the values of rural life] felt towards fisheries, as a threat to the status quo in economic activity. These attitudes would persist for a long time: those men who worked in industry and trade originally had to establish their own banks, *Iðnaðarbanki* (the Industrial Bank) and *Verzlunarbanki* (Bank of Commerce), which eventually merged and became part of Íslandsbanki, because agriculture and fisheries had priority in the three state-owned banks. There are still traces of these exalted views of the primary sectors, even though the percentage of fisheries in GDP has dropped to 10% and its share of export revenues to 40% – and both of these percentages will continue to decrease in the coming years.

Iceland's foreign debt amounted to ISK 959 billion at the end of last June according to the Central Bank, having decreased slightly this year, but net foreign debt is now about 98% of GDP. Net public debt has decreased substantially in recent years, from 39% of GDP to 23%, but corporate and household debt is at an historical high. Your former colleagues at the IMF last year cautioned against a banking crisis, but this massive debt has up to now had rather little impact. What effect can the debt position have on economic issues in Iceland over the next few years?

To my mind we would have been better advised to use the economic upswing 1996-2000, to the extent that this was not in itself fuelled by foreign borrowing, to reduce foreign debt and prepare to finance the heavy industrial projects now getting underway through internal borrowing rather than borrowing from abroad. The debt burden has grown enormously in recent years, as Iceland's foreign long-term debt has almost doubled since 1996 and is now almost 100% of GDP. In 1997 one-fifth of our export income was used for interest on and repayment of foreign loans. In 2001, servicing the debt ate up almost half of export revenues. Which meant that last year only half of our export income could be used to pay for imported goods and services. The burden could grow even heavier, if global interest rates rise. It remains to be seen whether the money has been put to good use and will enable the debtors to bear such a heavy debt burden as time progresses.

Such a large and persistent trade deficit and accordant debt accumulation are not, however, unique among OECD countries. New Zealand's foreign debt rose to over 100% of GDP in 1999. One could say that they financed radical reform of their economy after 1984 to some extent through foreign borrowing. Despite all the reforms things are not going especially well in New Zealand these days. Some people say that the huge debt burden hampers economic growth down there; that needs to be examined more closely. The Danes chose a different route. They weren't nearly as far along the debt-accumulation trail as we Icelanders are today when they decided to change direction and turned the external deficit into a surplus and have reduced their foreign debt substantially since 1985. The South Koreans did the same. For both nations, caution paid off.

At year-end 2000 Iceland's trade deficit had reached ISK 68 billion, as a result of which, for instance, the exchange rate plummeted. You wrote an article in *Vísbanding* in March of 2001 which created quite a stir, after the exchange rate for the *króna* dropped 20% against the USD. In it you predicted, contrary to views held by most people, that the Icelandic *króna* would drop even more, which proved to be the case. Now the situation has changed considerably, the trade deficit is evaporating, inflation has fallen rapidly and the *króna* has strengthened considerably during the past year. What happened during this period and where are we today?

I am still of the opinion that the *króna* exchange rate is too high at the moment and will eventually decrease. The major devaluation of 2001 was, in my opinion, not a question of overshooting the target but rather a temporary flirt in the direction of realistic long-term balance. Naturally, it's impossible to make any claims about this with absolute certainty; there's no simple way to calculate the "correct" long-term exchange rate, because exchange rate developments are subjected to all sorts of uncertainty both in the short and long term. The core of the question, to my mind, is that those factors which cause high-exchange-rate problems, and which I described in my article in March 2001, still exist. The problem is structural: it's built into the infrastructure of the system – and here I'm once more speaking of (a) this peculiarly Icelandic variation of the "Dutch disease", which is manifest in the perennial stagnation of exports and is unique among industrialised nations; (b) on-going foreign debt accumulation; (c) latent inflation which erupts every now and then; (d) skewed infrastructure caused by rooted protectionism in fisheries as well as agriculture; and (e) excessive short-term foreign debt and insufficient currency reserves.

There are some signs on the horizon that EU membership could become an election issue in Iceland next spring, in which case the currency issue will be a major factor in the discussion. Supporters of the Icelandic *króna*, who were hard-pressed when the *króna* was in free fall 2000-2001, have sounded convincing when they have pointed out that the currency appears to have served rather well as a relief valve on the economy and equilibrium has been reached once more. They have also claimed that fluctuations in the Icelandic economy are out of phase with economic fluctuations on the Continent, which should mean that the Euro could do more harm than good under "Icelandic conditions". Under such conditions, it's difficult for pro-Euro spokesmen to convince people that the Euro will serve Icelanders better than the *króna*. What do you think the eventual outcome of this case should be?

I am of the opinion that Iceland belongs in the EU. By saying this I am taking a political position, which I make no attempt to conceal. The idea of Iceland's "unique and special" position in the world community appears to me to a product of unrealistic romanticising of the past, and of limited value in today's situation. To enjoy the full benefit of EU membership, it appears to me that we will have to adopt the Euro, as most of the Member States have done, with the exception of Denmark, Sweden and the UK. Some Swedes complain that they aren't paid enough attention in Brussels, claiming that

they will continue to be regarded as second-class citizens in the European house as long as they fail to introduce the Euro. The Finns don't have to complain in this respect.

The question of the Euro won't be decided merely on economic grounds, as I said earlier. Replacing the króna with the Euro has both its advantages and disadvantages, and all the economics in the world cannot determine definitively which will be more favourable, to retain the króna or take up the Euro. Some people say that the business cycle has a different frequency here than on the Continent. That may well be true, but then we also need to bear in mind that business cycles depend on circumstances: our EU entry would increase trade between Iceland and Europe, with the result that, as time progresses, business cycles here would be likely to gradually reflect more closely the European ones.

The EU is an alliance for peace. To my mind, it's hardly to our credit to merely ask what membership would cost in monetary terms and what we would gain financially from it. No one asked questions like that, at least not aloud, when we were offered NATO membership just over half a century ago. I think that Icelanders should willingly join other European nations in the forum of the EU, not only for economic advantage but also to try to make our positive contribution. It does apply sometimes in international relations, as the good book says, that it's better to give than receive. It won't do us much honour to stand on the sidelines when the Eastern European nations enter the EU in year or so, thereby sealing their return to the fold of European democratic and market-economy nations. We should have been part of the reception committee.



Power-intensive industry has been high on the discussion agenda in recent years and now it appears that there will be substantial growth in this sector in the coming years. The proponents of these developments have spoken of the multiplication effect for the Icelandic economy, while those less convinced have pointed, for instance, to their crowding-out effect, which will weaken rather than strengthen other sectors. On the one hand this would appear to be just what the doctor would prescribe for a sick patient, to get him back on his feet, while on the other hand, it would appear to aggravate the chronic illness of countries who place all their trust on natural resources. What is your diagnosis and prescription?

As a contemporary of Einar Benediktsson, I would have been a supporter of his plans for hydropower development. I was also in favour of the power projects during the Reconstruction years, although to my mind they began about 40 years or so too late. Another 40 years have passed since that time, and it seems to me evident that in our part of the world the era of hydropower development and energy-intensive industry is past. There are some things that you either do at the right moment – in accordance with the demands and opportunities of the time – or else forget about them. We decided against laying a railway across South Iceland and to the North when the time was ripe for that, and it has never occurred to anyone to try and right that wrong now – if, indeed, it was a wrong decision as far as the country's industrialisation was concerned – by laying railways these days. It's simply too late.

Similarly, I feel we've simply missed the boat as far as energy issues are concerned. There are too many doubts about cost efficiency, and today we make other and greater environmental demands than was the case half a century ago. In addition to which the National Power Company, Landsvirkjun, has now become to some extent a political entity, and here I'm not just speaking of the company's board of directors, but also the behaviour of its management. The way things are now, anyone has good reason to wonder whether Landsvirkjun is acting partly as an extension of regional policy, just as the state banks have long since done, together with various other state corporations. Experience should teach us: when a proposed hydropower project is described by politicians as the greatest boon to a specific rural area for decades, the country's taxpayers – and energy consumers – had better mind their wallets.

The problem here is, it seems to me, that we have neglected education. If we had paid more attention to educating the people of this country we wouldn't be where we are today. The rural areas would be rife with businesses where capable, well-educated workers receiving good salaries would be busy preparing software and the like for the world. In which case the rural areas wouldn't be waiting for help from the capital: a tunnel or two here, a power project there, and so on. We have to stop thinking of tunnels and roads, power projects and bridges as a cure for all rural ills. I think we should rather do our utmost to increase people's education as much as possible, then a varied and productive economy would automatically follow. That's the best regional policy.

There are probably few people who have as vocally advocated the necessity of education for Iceland as you have in recent years. According to the assessment by the World Economic Forum of nations' competitiveness, the low proportion of students at the highest educational levels appears to be to Iceland's disadvantage. What is the educational situation today; do we need to make improvements and what can be done?

Education pays. Generally speaking, it pays for each and every individual, because it increases work satisfaction and performance, as well as people's incomes and opportunities during their lifetimes. The yield of education has increased substantially through the years, to judge by US economic statistics. Some 20 years ago, workers with a university education in the US had an average income

slightly more than 50% higher than those who only completed high school. Today university educated workers in the US earn more than twice as much as others on the average. This wage differential should send a clear message to young people. Education also pays for the society as a whole, because one person's education increases the benefits of the next. Each of us is better off in a society where education is universal, extensive, varied and of good quality.

All the same, the predominance of state activity in education does have serious disadvantages, as is generally the case with state involvement. The main problem seems to me to be that the scope of educational affairs has outgrown its authorities, and led to centralisation which limits variety in education. Centralised power is slow to react: For example, it has taken far too long to lower the age at which pupils take the university entrance examination, to shorten the time they spend in upper secondary school. This is something that should have been done long ago. Centralisation also obstructs healthy and fertile competition – for example, for teachers and students, i.e., the workers and customers – competition which has proved to be fruitful and useful in most other areas of the economy. The educational system is like the health care system: it is a major part of modern life and has to obey the same main principles of the market economy as the rest of the society to ensure both sufficient and high quality education and health services. Misguided centralisation detracts both from the quantity and quality of the services.

No two people are alike, and so we need a variety of educational options. Trying to pour all pupils into the same mould is no recipe for success. What is more likely to bring good results is to try to meet the varying needs and wishes of pupils by offering them many different educational programmes. The high dropout rate among upper-secondary pupils is partly the result of boredom. Many pupils don't find study programmes that suit them. Others don't even make an attempt at secondary school, because they find no attractive study options.

Ineffective centralisation detracts from the variety of the educational system. Support by the state and local authorities for the educational system does not necessarily mean that public authorities need to own and operate our schools, as is now generally the case. Both the state and local authorities can strengthen education by other means, for instance, with support for private schools, or by offering students scholarships and allowing them the independence to choose their own study programmes. School operation would then be gradually transferred from the public domain to the private sector, as has in fact occurred to a growing extent in recent years, while the state would continue to set the overall framework, e.g., maintain active quality control and the like. This is the general rule in our society: private companies look after the actual operation, the state lays down the framework. At the same time, in view of the experience of other countries, care has to be taken to respect the special position and importance of general education in society and protect it, for example, from religious extremism or shameless exploitation, without at the same time limiting freedom of religion and individual freedom.

Would greater variety in education lead to increased inequality of wealth and incomes? Not necessarily. Equality in educational affairs is best assured by ensuring everyone equal access to education and by attempting to enable everyone to acquire as much good quality education as they wish to. It's only natural that some people will put their educational opportunities to better advantage than others. The response to this shouldn't be to try to restrain those persons who want to educate themselves well, but on the contrary to try to find ways to encourage the others – and here as well the public authorities have an important role to play. Increased, more varied and better education for as many people as possible generally leads to increased equality in a society, and at the same time to increased cohesion and long-term prosperity.

It has been highly interesting to follow economic discussions in the past few years. The Keynesian inheritance appears to be viewed either as a guiding light or heresy; the Austrian school, primarily Hayek and perhaps Schumpeter, has been rediscovered and the Nobel prize for economics has, in the past few years, been awarded for research which is on the fringe of what could be called economics, such as game theory and experimental economics. Now as before, economists have formed opposing camps and appear hardly able to agree on anything. Where is economics as a discipline situated these days, and what is its future development likely to be?

Economics is in good shape both as a scholarly discipline and tool for analysis; I refuse to admit otherwise. It has an advantage over other social sciences in the fact that it has adopted statistical methods and mathematics to serve its ends to a much greater extent. Other social scientists have naturally noticed this and are now attempting to follow the lead, especially political scientists. On the other hand, it's quite true that it's difficult for some economists to juggle several balls at the same time, and to make a distinction between economics and their own opinions.

If we look at the last point first, I recall a conversation I had with a US economist acquaintance of mine over dinner some years ago. The fellow I'm referring to is one of the best-known economists both in the US and around the world; there were three of us dining together. The story will explain why I refrain from mentioning his name. He volunteered the information that there was no way in the world he could reach the conclusion in his research that the state could have a positive effect. I put down my own knife and fork and asked in reply, what he thought of the distinction which Milton Friedman emphasised economists had to make between positive and normative economics. Positive economics deals with things as they are, in which case the views of the researcher make no difference, no more than they do in physics or biology, while normative economics deals with things as they should be, and there private views do make a difference. Friedman's half-a-century-old description of the difference between the two is still respected by economists today. The economist I was speaking to, however, replied "Who cares?!", making me feel that it was time to change the subject. It seems to me that ideological intransigence of this sort has been growing in the US in recent years – during those same years that the country's two political parties, Democrats and Republicans, have been clashing with a ferocity rarely seen during the last century. The increased divisions between economists on various issues, occurring at a time when adversarial party politics seems to know no limits, is not inclined to stimulate public trust in either them or economics. These divisions are not as sharp in Europe, fortunately.

When they took turns writing a column in *Newsweek*, Paul Samuelsson, the first US Nobel laureate in economics, and Milton Friedman, who also received the Nobel prize several years later, they respected the border between policy and facts, which no one had contributed more to drawing than Friedman himself. And they respected each other's point of view, although they were usually opposed to one another, sometimes because they interpreted statistics and empirical arguments differently and sometimes for political reasons. Mutual respect among economists in the US, the bastion of economics in our time, has been decreasing, or at least it looks that way to me, which is unfortunate.

The other problem I mentioned is dogmatism, even fanaticism. Some economists appear to have difficulty in entertaining two views at the same time, they appear to be determined to find the one and only correct view. This obsession with orthodoxy may be connected to the increasing ferocity that has developed in US politics in recent years and in some other countries as well, such as the UK. This trend seems to have started during the time when Ronald Reagan and Margaret Thatcher were in power. Both of them had their good qualities, in my opinion, but they appear to have attracted to their respective parties a variety of foul-mouthed extremists, such as the fundamentalists who have

to an increasing extent set their mark on the US Republican party in recent years. The need of various so-called right wingers to misinterpret or even blacken the name of Keynes – the man who more than any other was responsible for saving the market economy from the ideological attacks of European communists in the years leading up to World War II – is part of this same trend. I think, though, that extremists will end up the worse off from their encounter. The situation today for the UK Conservatives, the party that has been the bastion of hard-line fanaticism in that country, is such that the majority of Brits don't even know the name of the party's leader.



What economic problems are most pressing for the global community to resolve in the next few years and why?

There's one thing that's more important than anything else to my mind, and that is rapid economic growth throughout the world, nurtured by sensible economic management and a sound economic system. The world's greatest problems are oppressing poverty and ignorance. Naturally, this applies primarily to the poor countries of the Third World, but also to some extent to the affluent countries in our part of the world. Rapid economic growth, good economic management and a good economic system – i.e., a healthy market economy – are the only way to deal with the problem. Economic growth on its own is naturally no final solution, no panacea, because rapid growth has to go hand in hand with a fair distribution of the economic gains among a country's citizens. Inequality can destroy the social contract and in so doing spoil prospects for economic growth.

There has been a revolution in economic growth theory in the past 15-20 years. Up until that time growth scholars were generally of the opinion that economic growth resulted primarily from technological progress. This idea was based on a splendid theory, for which Robert Solow was deservedly awarded the Nobel prize at the time, and it can be traced through all economic growth

theory for a generation up until 1990. About that time it was discovered that Solow's old growth theory had been interpreted too narrowly, and economists realised that they could interpret the older theory in a different manner to accommodate newer and broader economic growth theories. The result was, when it came down to it, that rationalisation – doing things more efficiently by whatever means – can fuel economic growth through extended periods no less than technological progress. This was a scientific revolution of the best sort. Taking this approach enables us to disentangle economic growth from technology and build bridges in various directions, to examine, for instance, and explain the connection between economic management and economic growth, because economic reforms, which increase efficiency in the national economy, lead to the same result as technological advances and thus stimulate economic growth. This is also the view taken by new economic growth theory of the connection between growth and foreign trade, inflation, privatisation, education, natural resources and unemployment, to name a few examples. The main principle of new economic growth theory can be described in a single sentence: Everything that increases efficiency also increases economic growth in the long run. This people had not previously realised. And yet: that's not quite true, because Adam Smith understood this, as did Alfred Marshall, whom I mentioned somewhat earlier. Their judgement and insight was sufficient to realise, without arithmetic, that this had to be the case. And it definitely is.

You have taught economics for some time now, and perhaps followed the development of young economic scholars here in Iceland. What do you think of the new generation of economists, who make their presence felt to a growing extent in Iceland? Do you have any words of advice for them?

Yes, I've been watching them and have plenty of reason to be pleased. There wouldn't be much point in teaching in a university that didn't have good students. A university is only as good as the students who study there. Iceland holds a world record for PhDs in economics in proportion to the population. There are a total of 50 of us all told, 51 in fact, all still living except for eight. By far the greatest number of them have worked partly or completely here in Iceland. Half of these 50 economists defended their doctoral theses after 1985, and one-quarter of them since 1995, so if this keeps up the number of Icelandic PhDs in economics and business administration will exceed 100 within the space of 15-20 years or so. And that's not counting all those with Master's degrees, or students who took their first degrees in economics and business administration either here in Iceland or abroad. This is a fine fellowship. They have their work cut out for them: this group will hopefully make economics a leading element in the upper secondary school curricula, improve debate in the newspapers and other media, make films (and why not?), manage companies and banks – and the country; in other words do practically everything apart from weddings and funerals. This term we're taking the first steps in doctoral supervision in the Faculty of Economics and Business Administration. I am, for instance, supervising one doctoral student, Helga Kristjánsdóttir, who is writing her thesis on international trade and foreign investment in the light of new theories on human capital and geographical location. She is working on this both here in Iceland and abroad.

In closing, what should be the most important tasks of economic management in Iceland in the next decade and what can be achieved?

Just before the 1999 parliamentary elections I expressed the view in *Vísbanding* that three important tasks awaited the new government in economic and foreign affairs: it had to submit an application for EU membership, begin collecting a fishing fee and privatise the state banks. And what has happened? The Minister of Foreign Affairs has changed his views on Europe and now looks likely to push for an application for membership during the next electoral term. That looks encouraging. Both parties of the governing coalition have added the legislation of a fishing fee to their platform and even made it law, although we still have to haggle a bit over the price. And the government has taken a major step

in privatising the state banks. Not too bad, all things considered, though we have a way to go before we make port. We can at least see the shore.

The most important task for the coming years, in my opinion, is to continue along the route we have been following, try to straighten out and reinforce the economic infrastructure and increase efficiency and competition in various areas to strengthen long-term economic growth. Increased foreign trade is one key to raising the standard of living in a small country – and a vital necessity in light of the foreign debt this country has got itself into. It is not least with regard to the current situation that we have to find a permanent solution to fisheries management by means of a well-conceived fishing fee. This would, among other things, facilitate our entry to the EU, because we could offer other Member States access to an auction market for fishing quotas and avoid responding to their wishes for access to fishing resources. We also have to introduce radical restructuring – be more open to market-friendly solutions – in education and health care, to ensure sufficient funding to these important areas. Human capital is the most valuable resource of any country. This is why education, culture and health have a key role to play in economic life.

Eyþór Ívar Jónsson asked the questions, I responded,
Keneva Kunz translated from Icelandic.