

## GUNNAR MYRDAL

Ing. Anetta Čaplánová, PhD.

Faculty of National Economy, University of Economics in Bratislava

*Gunnar Myrdal was born on 6th December 1898 into a farming family. In 1923 he completed his study of law at Stockholm University and began to work as a lawyer. He also continued study for a doctorate in economics. He was a student of Knut Wicksell, David Davidson, Eli Hecksher and Gustav Cassel. In 1927 he gained his doctorate in economics at Stockholm University and published his dissertation, in which he set out the starting points of his monetary theory. From 1925 – 1930 with intervals, he studied and worked abroad, in Germany, Great Britain and the USA*



*and published his first works. In 1933, he succeeded Cassel as head of the Department of Political Economy and Public Finance at Stockholm University. In the same year he published an article in German, which became a key part of the book *Monetary Equilibrium*, published in English in 1939. He was also active in Swedish politics from the 1930s. In 1934, he was elected to the Swedish parliament for the Social Democratic Party. This period from 1927 to 1934 is often regarded as the most intellectually productive in Myrdal's career.*

*Around 1940, the Carnegie Corporation entrusted him with studying the problems of Black Americans. The result was the book "An American Dilemma: The Negro Problem and Modern Democracy". After returning to Sweden in 1942, he again worked as a member of parliament, member of the administrative board of the Swedish central bank and chairman of the Swedish planning commission. He held the post of minister of trade from 1945 to 1947. In 1947, he was appointed executive secretary of the UN Economic Commission for Europe. He left this post in 1957 so that he could devote his attention to the study of the economic development and policies of the countries of Southern Asia. He devoted ten years to this work and the result was two publications: "Asian Drama: An Inquiry into the Poverty of Nations" and "The Challenge of World Poverty: A World Anti-Poverty Program in Outline". In 1961, he returned to Sweden and was appointed professor of international economics at Stockholm University. He founded the Institute of International Economic Studies at Stockholm University in the same year.*

*Myrdal was awarded more than thirty honorary doctora-*

*tes and a large number of international prizes. In 1974, he won the Nobel Prize for economics jointly with Friedrich von Hayek, for his pioneering work in the area of the theory of money and economic fluctuations and for a penetrating analysis of the interdependence of economic, social and institutional factors. Like Hayek, Myrdal started his academic career in the area of pure economic theory and concerned himself with the theory of economic fluctuations and monetary theory. Later Myrdal directed his economic analysis especially to the social, demographic and institutional conditions for economic development and his work was directly connected with the problems of practical economic policy. Thus, when awarding the Nobel Prize, the Swedish Academy of Sciences pointed to the importance of his work "The American Dilemma", in which he showed his ability to place economic analysis in a wider social perspective.*

*Gunnar Myrdal was married to Alva Reimer-Myrdal, who held high posts in the UN and UNESCO, worked as Swedish ambassador to India and became a government minister. They had three children – two daughters and one son. Gunnar Myrdal died in 1987 aged 89.*

### Myrdal's Economic Views and Theories

Most of the works from the first period of Myrdal's scientific activity can be described as works written in the spirit of economics as a pure science, oriented especially towards the analysis of topical theoretical questions. This period of Myrdal's professional career was directly connected with the economic analysis of the so-called Stockholm School, which stood out in the 1930s as a distinct group of economists concerned with specific problems and promoting a specific methodological approach to analysis. The theory of the Stockholm School is most frequently known as a theory, which arose in parallel to Keynes' universal theory. It solved similar problems to those considered by J.M. Keynes. However, there are

significant differences between these approaches. In contrast to Keynes, the theory of the Stockholm economists is notable for an attempt at a dynamic approach, with various dynamic methods applied in their analyses. One of them was introduced to the theory by Myrdal. It pointed out that expectations are an independent part of the variables, which influence long-term balance. The Stockholm economists also devoted great attention to the analysis of monetary phenomena and the problem of monetary equilibrium. Their theory included the analyses of Gunnar Myrdal in this area.

Myrdal's dynamic approach to equilibrium included the idea that when theoretically determining equilibrium, it is necessary to take into account the expected results of the influence of some changes and movements. Therefore, he demanded that eco-



conomic analysis consider not only the determinants operating at the time, but also the "expected results" or the "factor of change" as he sometimes called them. With this conception, he wanted to point out that changes, whether foreseen or not, influence economic processes long before they happen. In his view, this influence is possible because the creation of prices occurs in the minds of people. Thus, in the dynamic theory the equilibrium price has its own existence and differs from the equilibrium price, which arises in conditions of static equilibrium. Myrdal did not regard the static theory as a correct approximation of reality, because prices in a static model usually do not correspond to real prices. However, in spite of this, he pointed to the justification of the use of the static approach, because it is a sort of theoretical basis for more complex and deeper analysis and so can serve as a starting point for a dynamic theory.

Myrdal's work "Monetary Equilibrium" can be regarded as an attempt at a critical return to Wicksell's idea of a normal interest rate so that it can be used in analysis of monetary equilibrium. In "Monetary Equilibrium" Myrdal continued his doctoral dissertation devoted to the problem of creation of prices and economic fluctuations. The conception of ex ante and ex post, which he brought into the theoretical analysis of monetary equilibrium can be regarded as Myrdal's most important contribution to development of the dynamic method. This approach can also be used to analyse lack of equilibrium. According to Myrdal, ex post savings can deviate from ex ante investments, but the ex post level of savings and investments must balance, because from the longer term point of view, society can only save by accumulation of real assets. In this work, Myrdal already used the principle of cumulative causality, which remained part of his theoretical analyses in later years. In the dynamic process, ex ante expectations result in ex post achievement of account equilibrium. According to Myrdal, precisely this process leads to unexpected gains and losses of individual economic entities and to the fluctuation of prices. Only in the state of equilibrium do ex ante savings equal ex ante investments, and there is no pressure for change of prices.

In spite of the fact that J.M. Keynes and F. von Hayek were concerned with similar questions in the same period, the difference between the approach of these economists and Myrdal's approach lay in the emphasis, which Myrdal placed on the role and importance of expectations. One of the basic aims of his analysis was to bring expectations into the monetary system. The quantities, which influence monetary equilibrium, must be quantified ex ante. Myrdal described this method of analysis as analysis at the given moment. In his view, dynamic analysis during a certain period can be done only if we start from developmental tendencies, which exist at certain prices. These tendencies are determined by the expectations, which dominate in a given situation. In this context ex ante expectations are the moving force of the dynamic process. However, the ex post results are also important, because they become the starting point for the ex ante expectations for the following period. As we mentioned above, Myrdal's dynamic method is constructed so that ex post equilibrium always results. However, from the point of view of monetary analysis,

it is also interesting to analyse the changes, which occur between the ex ante and ex post states, and are necessary for ex post equilibrium to be achieved. Since Myrdal regards these changes as the results of deviations from original expectations, his economic analysis must identify their cause, which can be ascertained so that we analyse the ex ante expectations and then we proceed to evaluation of the elements, which conditioned the changes of ex post expectations.

Using the conception of Wicksell's cumulative process, Myrdal pointed out in "Monetary Equilibrium" that with the decline of the income of society, there is a much smaller decrease of its total purchasing power, which is the source of demand for consumer goods. As a result of this decline, the saved part of income decreases, and the decline of savings leads to a change in the equilibrium situation on the capital market. This phenomenon also has an indirect influence, when the maintenance of demand for consumer goods limits the decline of their price level. This supports the value of capital and real investment. By using this analysis, Myrdal came to the conclusion that unchanged consumption habits support the maintenance of monetary equilibrium even in the event of worsening credit conditions. With this analysis he approached an explanation of the factors, which could stop a descending cumulative process and formulated an equilibrium point of decline of the economic cycle, which becomes a starting point for the growth of investment and output. At this point ex ante savings can equal ex ante investments, which is a pre-condition for achieving monetary equilibrium, as we defined it above. Thus, in this direction, the centre of gravity of Myrdal's analysis is an effort to determine the factors, which create an ex post equilibrium between savings and investments in a continuing cumulative process.

Thus, according to Myrdal, the conception of monetary equilibrium, understood as a state in which Wicksell's cumulative process does not occur, always concerns the situation at a certain moment in time. He does not regard the achievement of monetary equilibrium as an abstract aim. Understanding of the mechanism of its creation can contribute to reducing the effects of the economic cycle, although the cycle as such cannot be entirely eliminated. Myrdal also pointed out that the measures necessary to achieve monetary equilibrium and the measures directed towards achieving other aims may contradict each other. In this context, he emphasized that an effort to achieve full employment may be associated with high social costs.

### **Myrdal – the Institutional and Social Scientist**

In spite of the fact that Myrdal started his professional career with an orientation to economics as a pure science, in the 1920s he already wrote articles analysing the problems of social policy. Later he considered himself an institutional economist. He defined institutionalism as rejection of the idea that exclusively economic problems can exist. He considered problems comprehensively and demanded an inter-disciplinary approach to them. Myrdal held a critical position on economic theorizing and emphasized that economists should first explicitly formulate their value positions and only then for-

mulate their recommendations for economic policy. They should also be modest when formulating universal laws and postulates. In his view, this was the only effective way to achieve practical aims. Political recommendations should be formulated rationally, that is they should start from the most comprehensive and most correct information. However, this meant that Myrdal rejected the method of abstraction. However, he emphasized that it is necessary to avoid economic analyses taking into account irrelevant factors, while ignoring relevant information. He also had a critical attitude to closely defined economic categories. In his view, the aims of economic analysis should start from the needs of people.

Myrdal gained worldwide popularity with his work about the position of Black Americans, in which he endeavoured to combine economic, social, demographic and institutional analysis. He used sociological changes to explain economic change, and pointed to interaction between "economic" and "non-economic" changes. For example, better diet, health and education for workers condition their higher productivity, and so create the conditions for further improvement of the diet, health and education of the population. Myrdal also pointed to the need to explain phenomena only on the basis of finding the causal connections between two factors. He pointed out that economic, social, demographic and institutional factors may be in equilibrium, but are more frequently in a state of dis-equilibrium. He regards the state of dis-equilibrium as more interesting. A system in a state of dis-equilibrium changes according to the principle of so-called "cumulative causality". He regarded this principle as a form of the multiplication process, which can continue indefinitely as a result of feedback.

The importance of the principle of cumulative causality lies in the fact that it enables clarification of the process of interaction, which occurs not only in the social system in which individual elements interact, but also in time, since the memory and expectations of the economic actors play a key role. The reaction of economic actors to a change in a certain variable, for example, prices, differs according to how that variable developed in the past. Precisely this element distinguishes Myrdal's approach from the approach of economists who concerned themselves with the analysis of universal economic equilibrium.

The principle of cumulative causality also dominates in Myr-

dal's last important work, in which he devoted attention to analysis of the problems of the economies of South Asia. Myrdal gave an alternative explanation of the development and economic situation in this part of the world. According to Myrdal, the majority of economists over-estimate the role of the accumulation of capital in the process of economic development. In his view, various inter-related factors influenced the social system in South Asia, so that a change in one of them led to change in others. If various factors change simultaneously with no one dominant change, the causal dependence in the system will act cumulatively. Using the principle of cumulative causality, Myrdal pointed out that specialization and economies of scale lead to growing profits and explain how small differences between countries may lead to significant differences in their effectiveness. Myrdal regarded unequal division of power and poverty in economies not only as obstacles to equality, but also to effectiveness and their further growth.

Myrdal also devoted attention to analysis of inflation accompanied by significant growth of unemployment, which occurred in the developed countries in the 1970s. He was one of the first economists to use the term "stagflation" in connection with these processes. He explained the situation as a result of the influence of producers' pressure groups, a low level of organization of consumers, the existing tax systems, which support speculative expenditure, as well as the market structures, which exist in individual Western economies. Myrdal regarded inflation as a phenomenon very harmful to society.

Whether as a representative of the Stockholm School or in the later period, when he belonged to the institutional orientation in economics, Myrdal cannot be regarded a liberally oriented economist. In spite of the fact that he started from the ideas of his teachers K. Wicksell and G. Cassel, he became a critic of the paradigms of economic liberalism and from the points of view of theoretical analysis and economic-political recommendations, he became a supporter of state interventionism. Especially in the later period, Myrdal's works and views placed him among the supporters of the so-called third way. He believed in the possibility of self-reform derived from the conflict between the preferred and proclaimed aims and real actions, between ideals and reality. The result of this conflict is either to adapt the reality to the ideal, or to change ideals to be in harmony with reality.

#### Selected works of Gunnar Myrdal

- 1927 Prisbildningsproblemet och fördanderligheten. Uppsala and Stockholm. Almqvist & Wiksell.
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- 1958 Value in Social Theory. A Selection of Essays on Methodology. Ed. P. Streeten. London, Routledge.
- 1960 Beyond the Welfare State. New Haven, Yale University Press.
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- 1972 Against the Stream: Critical Essays on Economics. New York, Pantheon.