Gunnar Myrdal (1898–1987): A Memorial Tribute

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Gunnar Myrdal, co-winner of the 1974 Nobel Prize in Economic Science, passed away in May of 1987. The Prize was given for his pioneering work in the theory of money and economic fluctuations and for the penetrating analysis of the interdependence of economic, social and institutional phenomena. Also, for the majority of contemporary academic economists in America and Western Europe, Gunnar Myrdal is thought of as not really an economist, but a sociologist. How, many asked in 1974, could a sociologist win the Nobel Prize in Economic Science? Lest there are any among us who still ask that question today, it is relevant to recapitulate the basis for his place in the history of our discipline.

The MAN and HIS CAREER

Gunnar Myrdal was born in 1898 in the village of Sövabro, in the central Swedish province of Dalarna. Even today this province reflects old Sweden in miniature: farms, woods and lakes still predominate. In summer Sweden still rocks there to savour the pleasure of small-scale village life as it has been lived in Dalarna for centuries. The rural folk remain freeholders of their land whose history knew little of either nobility or serfdom.

Myrdal’s father, Carl Adolf Pettersson (1876–1934) was himself the owner of a landed estate, a successful, self-made man of conservative political leanings. His child was christened Karl Gunnar. The childhood memoirs of Gunnar’s son, Jan Myrdal, recall how Karl Gunnar Pettersson became Gunnar Myrdal. After graduation from the gymnasium, as a student of jurisprudence, he called himself Gunnar Myrdal. Eventually, the latter h also disappeared from the last name and the young student became Gunnar Myrdal. At the University of Stockholm, he was studied with Knut Wicksell, David Davidson, Eli F. Heckscher and Gustav Cassel. He was a brash young man and Gustav Cassel once warned him by saying: “Gunnar you should be more respectful to your elders, because it is we who will determine your promotion.” “Yes,” young Myrdal replied, “but it is we who will write your obituary.” Nevertheless, he and Cassel became very close and he eventually succeeded to the latter’s chair in political economy at Stockholm University. When Cassel died in 1945, Myrdal wrote his obituary which was eventually translated in 1963, into English. In 1924, Gunnar married Alva Reimer, who became a leading feminist as well as a diplomat and cabinet member and, in 1942, winner of the Nobel Peace Prize. The Myrdals had three children: Jan, an essayist and political scientist, Sissela Ann, an authority on ethics and the wife of Derek C. Bok, president of Harvard University, and Kai Fölster, a sociologist, who resides in Göttingen, West Germany. Jan, their oldest son, caused Gunnar much grief by publishing childhood memories of his parents that portrayed them as popularity seekers, opportunists, and bleeding hearts. Jan Myrdal did not attend either of their funerals. But whatever Jan Myrdal wrote about his parents, Gunnar and Alva got along splendidly and were a happy couple indeed.

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Myrdal held the Lars Hierta professorship in Economics and Finance at the University of Stockholm from 1934 to 1950. In 1960, he became Professor of International Economy at the University of Stockholm, a post he held until his retirement in 1967. Myrdal was a prolific writer, and his bibliography included 750 publications. His best-known books are *An American Dilemma* (1944), *The Asian Drama*, 3 volumes (1968), *The Challenge of World Poverty. A World Anti-Poverty Program in Outline* (1970), *Against the Stream: Critical Essays of Economics* (1973), *The Political Element in the Development of Economic Theory* (1930) and the *Monetary Equilibrium* (1931). The latter two were translated into English and were published in 1953 and 1938, respectively.

**MYRDAL: THE ECONOMIC THEORIST**

In the fall of 1967, Gunnar Myrdal gave a series of lectures on economic development at Leipzig University. After his presentation, many of my colleagues in the School of Business commented on Myrdal's "vagueness." "Too bad," some noted, Myrdal gave up his theoretical work to descend into the "lower depths" of institutional economics to become a "story-telling" economist. In former years, from 1925 to 1931, Erik Lundberg characterized Myrdal as "a justly famous economic theorist." His 1927 doctoral thesis dealt with *The Problem of Price Formation under Economic Change* which led to his early 1930's work in macroeconomic theory. His first major theoretical work was published in 1933 as *Dre Gleichgewichtsgleichheit als Instrument für geldtheoretische Analyse*. The original German version in 1931. This work had an important impact on the debates on monetary analysis in Europe. Its *ex ante* and *ex post* concepts were quickly incorporated into the terminology of the dynamic analysis of saving and investment. The 1933 German volume, with some changes, became available in English in 1938 and Myrdal emerged as one of the founders of the "Stockholm School" of Economics. This was Myrdal's major contribution to pure macroeconomic analysis. In this early period, Myrdal was fascinated by abstract mathematical models of the 1920's and was active in establishing the Ecomometric Society, based in London.

With the onset of the Great Depression in the early 1930's, Myrdal lost interest in theory. He was particularly dissatisfied "with the results of isolated theoretical reasoning." His grumblings were expressed in a 1930 book which was published in 1932 in German as *Das politische Element in der nationalökonomischen Doktrinbildung*. It became available in English in 1953 under the title of *The Political Element in the Development of Economic Theory*. Its most distinctive feature is that Myrdal rejected the widely accepted doctrine of value-free economics, which most economists accepted since the publication of the *Scope and Method of Political Economy* in 1809 by John Neville Keynes. Its publication data coincided with Lionel Robbins' influential publication of *An Essay on the Nature and Significance of Economic Science*, whose basic message reaffirms that economic analysis is warfare in the name of Max Weber. Yet, the brash young Myrdal bluntly told his fellow economists, "don't pretend, don't play games with your value-free stance." From that moment on, the problem of bias in the social sciences was posed and, to some extent, had remained on the front burner. Myrdal's own preoccupation with the sources of bias in the social sciences and particularly in economic theory is apparent in his two major works, the *American Dilemma* (1944) and the *Asian Drama* (1968) as well as in *Objectivity in Social Sciences and Against the Stream*. To eliminate bias and to avoid unintentional falsification of reality, Myrdal urged economists to make their value-premises explicit and to test them for relevance, significance, compatibility and feasibility. He also insisted that every economist give a clear-cut account of the institutional conditions underlying his model or hypothesis. From the time of the publication of his *An American Dilemma* in 1944, Myrdal called himself an "institutionalist economist." In his Nobel lecture, Myrdal referred to himself as "... an institutionalist economist, compelled to conceive of development as a movement of a whole political, social and economic system..." Once he had widened the scope of his research and writing interests, Myrdal ceased being an economic theorist. With the publication of his 1930 book in which he dealt with the value-added terms of economics, Gunnar Myrdal became a social scientist first and economist second. He remained so till the end of his days and left to posterity his concept of the explicit value premise and the indictment against mainstream theorists for practicing what he called "illegitimate isolation" of the economic variables from the social and institutional variables. Thus, as a thirty year old economist, Gunnar Myrdal contributed three novel concepts to the economists toolbox: the first was his separation of the *ex ante* and *ex post* concepts in macroeconomic theory. The second was the postulate of the explicit value premise. The third was the rejection of the practice of "illegitimate isolation" of strictly economic variables from the rest of social phenomena. In this respect, he was probably consciously or unconsciously doing what Gustav Schmoller insisted on three decades earlier.12

**MYRDAL: THE POLICYMAKER, POLICY MAKER AND MINISTER OF TRADE**

As the Great Depression spread, Myrdal became interested in questions of economic policy making. He and Alva were ardent social democrats. Sweden elected a new socialist government in 1932, and Myrdal became an advisor who strongly favored the possibility of an expansive fiscal policy. Together the Myrdals' helped shape the contours of the Swedish welfare state; they prescribed family planning, sex education, public housing, child care and a comprehensive framework for the fiscal policy. In 1934, he was elected to the Senate as a member of the Social Democratic Party. In the late 1930's, Myrdal went to the United States to study racial discrimination. His work was published in 1944 as *An American Dilemma*. Upon his return to Sweden in 1942, he was re-elected to the Swedish Senate. During World War II, as Sweden remained neutral, he served as a member of the Board of the Bank of Sweden and was also Chairman of the Pre-war Planning Commission. Like most economists, Myrdal expected that the end of hostilities would bring an economic depression, similar to the sharp economic downturn at the end of World War I. Sweden prospered during the war by supplying wartime Germany with high-grade ore and ball bearings. Myrdal was apprehensive about the post-war years to come spelling out his fears in *Warnung vor Friedensoptimismus*, published in Switzerland in 1945. In this volume, Myrdal anticipated the economic difficulties likely in the USA after demobilization and the shift from war production to peace time economies. He was particularly afraid of the negative repercussions on Sweden of large-scale unemployment in the United States.

After 1942, Myrdal's political career progressed at a dizzy pace. From 1945 to 1947, Myrdal was Sweden's Minister of Commerce. To protect Sweden from possible economic mega-blow's coming from America, he concluded, a five-year trade agreement with the Soviet Union in the fall of 1946. It called for the delivery of Swedish electrical equipment and machinery in the amount of SK 200 million (Swedish Kronas). This was one way to assure reasonably high levels of activity in a few important sectors of Swedish Industry. However, before that agreement was concluded, Myrdal had to pave the way, so to speak, for closer contacts with the Soviet Union. In 1944, as the Red Army pushed the German army westward and the Soviets reentered
the former Baltic states of Estonia, Latvia and Lithuania, tens of thousands of Baltic refugees fled to Sweden where they found a warm welcome from the Swedish population and authorities. Among these refugees were some 200 Latvians who had been conscripted into the German Army and who also had sought refuge in Sweden at the last days and weeks of World War II. The Soviet Union did not want Sweden to shelter these refugees; for Stalin they were traitors he wanted back. Gunnar Myrdal’s role in the stormy cabinet debates on whether to return the Baltic POW’s interned in Sweden have been described by the former Swedish cabinet minister N. Quensel in his memoirs, Minutenbilder (1973). According to this volume, Myrdal supported the repatriation of the Baltic soldiers to the Soviet Union. The deportation action produced a veritable storm in the Swedish public opinion as the former Latvian soldiers were taken forcibly to the waiting Soviet ship in January of 1946.25 The soldiers were deported and their fate in the Soviet Union forgotten, but Gunnar Myrdal was criticized by Swedish public opinion for his involvement in this matter. Ironically, the five-year contract with the Soviet Union turned out to be a disaster for Gunnar Myrdal and marked the rapid end of his political career. The much feared economic contraction in the USA and the UK did not take place after the end of the war. Both countries here booming economies, with few customs, enjoying boom time prices and wages, it soon discovered that it was short almost 100,000 workers that it needed to fulfill the Soviet-Swedish trade agreement.26 Understandably, Swedish opposition newspapers blamed Minister of Trade Gunnar Myrdal for his role in the Swedish-Soviet trade pact.27 As the public pressure mounted, Myrdal was replaced.

In April of 1947, Secretary General of the United Nations, Trygve Lie, asked Gunnar Myrdal to take over the post of Executive Secretary of the Economic Commission for Europe.28 Myrdal accepted and served with distinction in this capacity from 1947 to 1957, even though the rising cold war limited the Commission’s effectiveness.

Towards the end of his stay in Geneva, Myrdal became interested in problems of economic change and development. In 1958, he wrote Rich Lands and Poor: The Road to World Prosperity, a small and widely read book. It stressed the complexity of economic development problems. From then on, Myrdal devoted his heart and mind to the problems of economic development.

MYRDAL’S VIEWS ON ECONOMIC DEVELOPMENT

From 1958 on, Myrdal spent ten years working on economic development. The Twentieth Century Fund financed his research venture and his monumental three-volume work, Asian Drama: An Inquiry Into the Poverty of Nations was published in 1968. Like An American Dilemma this book is predicated on the Weltanschauung of the Enlightenent: Reason, Nature and on their realization.29 Throughout his life, Myrdal viewed himself as a man of Enlightenment. The value premises of Asian Drama were the rationalistic ideals of the Enlightenent preserved and developed in the liberal thought everywhere.30 As Myrdal himself has said: “In the Age of Enlightenment, social science made a gigantic stride towards elevating itself from all influences other than observations of reality and analysis of observations in rational terms.”31 As a man of Enlightenment, Myrdal let his views on the application of Reason, his concept of Nature, and the idea of Progress shape his aims, hopes and policy prescriptions for economic development.

In his words,

“The Modernization Ideals in the countries of South Asia are now likewise forming a sort of national ethos, expressed as motivation for all planning and all public policies. They form what is nearly the ideological framework for every major policy discussion in these countries.”32

In his view, the on-going population explosion prevents reliance on laissez-faire and modernization has to be achieved by planning from above, to assure progress. Myrdal was not an advocate of Soviet-style direct controls; but neither did he advocate elimination of private ownership of the means of production. His call for planning as a tool for achieving economic development basically referred to creating an efficient government bureaucracy, probably a fit Swedish, and as a believer in the Enlightenment, Myrdal had always subscribed to the idea that man and society could be reformed by changing and improving social institutions. This meant that Myrdal had always used the interventionist approach to social problems.33 Because of this, one English free-market economist, Peter T. Bauer, now Lord Bauer, dismissed Myrdal’s Asian Drama as “The Million Word Pamphlet” as advocating too much coercion in his policy prescriptions.34

Myrdal set his development theory into the framework of the abstract modernization ideals that make up the official creed of the new countries of Asia and Africa. The gist of these ideals is that economic development should be a conscious and deliberate effort, based on rational considerations, and a major effort should be made to apply modern technology to solve the pressing social and economic problems. There is no room in this new era for custom, tradition, or laissez-faire. Myrdal’s modernization ideals comprise a long list and some of them overlap, but he presents them as follows: (1) rationality; (2) development and planning for development; (3) rise of productivity; (4) rise of levels of living; (5) social and economic equality; (6) improved institutions and attitudes, that is, (a) efficiency, (b) diligence, (c) orderliness, (d) punctuality, (e) frugality, (f) scrupulous honesty, (g) rationality in decisions on action, (h) preparedness for change, (i) alertness to opportunities as they arise in a changing world, (j) energetic enterprise, (k) integrity and self-reliance, (l) cooperativeness, (m) willingness to take the long view; (n) national consolidation; (o) national independence, (p) political democracy; (q) democracy at the grass roots level; (r) social discipline.35

Myrdal’s analysis of these modernization activities and their implementation made depressing reading. All the new Asian countries and their governments paid lip service to the abstract modernization goals, but the first decade of their independence gave ample evidence of disappointment and rising bitterness among the masses. Faced with such trends in the Asian countries, Myrdal drew a conclusion that shocked him profoundly: political democracy need not be a requirement for modernization. Stated in his own words,

“The writer may be permitted the observation that few things in the outcome of this study have been more disturbing to him, in view of his own personal valuations, than the conclusion that political democracy is not a necessary element in the modernization ideals.”36

He thought that, for the time being, modernization “. . . can be attained by an authoritarian regime bent on their realization.”37 He regarded the replicas of Western democracies left behind in the newly independent countries by the departing overseas colonial powers were essentially “functioning anarchies”38 working mostly for reaction and stagnation. For this reason, Myrdal believed that the "gradualist approach" so dear to many American economists will never bring about improvement in the living standards of the impoverished masses in Southeast Asia.39

Myrdal’s chief ire was reserved for the advocates of the Harrod-Domar-Hicks growth models that offer, in essence, savings-investment oriented explanations of the economic growth process. Savings-centered growth theory has been acclaimed as having universal applicability and it is precisely this claim that Myrdal questions. As Reynolds put it, the “basic weakness of these models . . . is the effort to isolate capital-output relations from the larger social system.”40
In Myrdal's terminology, such a procedure involved what he called "the logical fallacy of illegitimate isolation." Myrdal's "realistic" conception of economic development focused on the "upward movement of the entire social system." In particular, he rejected the widely-held and popular idea that economic development represents an increase "of national income per head." In his view, a social system consists of six broad categories: 1) output and income; 2) conditions of production; 3) levels of living; 4) attitudes toward life and work; 5) institutions; and 6) policies. He stressed that the first five categories are characterized by "mutual dependence through circular causation." Whatever may be the merits of this Asian Drama, Myrdal introduced and tried to popularize the principle of circular causation.

It is probably his emphasis on the principle of circular causation, in the realist study of economic development and of structural change of the Southeast Asia that created the impression among academic economists that Myrdal had become a "vague sociologist," an institutionalist, a story-telling, brush old man. But, whatever the superficial judgment of classroom economics, by the time he published the Asian Drama, Myrdal had enriched the economists and social scientists with a legacy of four analytical tools. The first is his ex ante and ex post concepts; the second is the concept of the explicit value promise; the third is the principle of "illegitimate isolation" of strictly economic variables; the fourth is the notion of "circulating causation."

MYRDAL'S ADVOCACY OF BROAD-BASED METHOD OF ANALYSIS

Even though Myrdal started his career as a pure economic theorist who was very much taken by mathematical methods and econometrics, he abandoned it all and became an institutionalist, much maligned and often not respected by the "new breed" of economists, for whom mathematical shorthand has almost replaced spoken and written English. Myrdal viewed contemporary mathematical economic theory as having come close to natural science only in form, but not in substance. In very much the same way as did Wassily Loontie he regarded utterly simplified economic models with mathematical dressing as "false science." He reminded economists that for centuries economics had been known as a "political" science and that "the cue to the reorientation of our work... [came] from the sphere of politics." To deal adequately with problems of mass poverty in the world, Myrdal pleaded for a Sociology of Knowledge. His yearning for a more thorough epistemological grounding of contemporary and future economics resembles Joseph A. Schumpeter's "prerequisites" and Schmoller's broad-based Sozialwissenschaft. It is their broad-based Sociology of Knowledge that Myrdal was pleading for. His was a powerful plea for the return to broad-based economic analysis to offset or counterbalance the pervasive influence of mathematics in economics. Though Myrdal hardly stands alone in expressing this idea, his eloquence deserves to be noted in assessing the impact of the four major contributions he made to the economists' toolbox.

Nothing is subtracted from Myrdal's legacy in recognizing that he was not an easy man to deal with and he remained brash to the end advocating unpopular causes in ways that often invited questions about his integrity. Yet, to those who took him seriously, whatever his faults may have been, as I did after I met him in 1967, he was generous with his professional encouragement and personal warmth. A signed copy of his Nobel lecture is among my personal mementos.

FOOTNOTES

BOOK REVIEWS


Despite the rather non-technical and descriptive title chosen by the author, this topical book contains extensive passages which address theoretical issues of current interest. Mr. Nositter is a trained economist, who has avoided the economist’s jargon and relied almost entirely on his considerable capacity to elucidate complex matters in plain language. His end product is quite a laudable work. His long experience as a close and acute observer of real-life operations in the international economic scene has stood him in good stead. As the economics reporter of The Washington Post in different theaters of the world and as the United Nations bureau chief for The New York Times, he had the rare opportunity of providing an eyewitness account of the continuous unfolding of global economic issues and his book makes good use of this experience.

In the first chapter he focuses on the climate and practices which led to the eventual third world debt crisis and concludes:

“The great debt trauma then is the result of several forces. The South’s voracious appetite for the misuse of Northern loans is one. The commercial banks, pouring oil deposits into developing countries with scant regard for the prudence that is supposed to govern their dealings, is another.

The theme of the first chapter leads to the discussion of a number of North-South economic-political issues; the last pulls together the threads of the intervening chapters and returns to the central theme.

That central thesis has several constituent elements. First, neither the South’s continuous elanor for transfer of resources from the North, nor the present mode of giving loans and aid by private institutions (commercial banks) and international agencies (IMF, World Bank, etc.) can attain much. The South cannot expect to gain any significant transfer of resources if it has nothing to offer in exchange. Moreover, short of basic structural reforms (like land reforms), the benefits from loans or aid do not generally trickle down.

Secondly, it is argued that it was the blind pursuit of monetarist policies in the United States and other western countries that made matters come to the present state.

“There is reason to believe that the wrong medicine was administered, that the deflation imposed on the world was an avoidable, self-inflicted wound, much like that of the early 1930s. The damage resulted because the Federal Reserve and other western central banks struggled against an inflation of costs with instruments designed to subdue an inflation of demand.”

Nositter also points out the external effects of the rise in interest rates:

“For the third world, and especially the big borrowers from commercial banks, the shock’s impact was horrific. The floating rates on their loans soared upward. Mexico, Brazil, and the others were confronted with ever-rising bills for their old debt as well as for any new loans they could find. Each of the two big Latin borrowers, in debt to the commercial banks by $75 billion and $84 billion in 1982, had to find another $300 billion every time rates rose one percent. (For all dodos by 1985, each one percentage point raised costs by $6 billion.) At the same time, the Western slump shut down the third world’s biggest markets.”

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