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# 1

## Beginnings and Early Intellectual Influences

Gunnar Myrdal was born in 1898 in the Swedish province of Dalarna. His origins were humble: he could trace three centuries of peasant stock in his ancestry. His father, however, departed from that occupational pattern. Though equipped with little formal education, he succeeded as a largely self-taught member of the building trade, specializing in the construction of railway stations. His mother, who also had slight exposure to formal education, was a conscientious Lutheran. The young Myrdal and his three younger siblings were instructed in the teachings of that tradition – as were their contemporaries who participated in the ‘Kristendom’ (Christianity) program then obligatory in Swedish schools. As an adult, Myrdal lapsed from churchgoing. Even so, Biblical overtones lived on in his intellectual style.

When Myrdal was 6 years old, the family settled in Stockholm. Despite this shift in residence, the family continued to identify with its roots in the province of Dalarna. Situated some 250 kilometers to the northwest of the nation’s capital, Dalarna occupied an honored place in Swedish history. Its rough terrain had served its inhabitants well when called upon to defend their own – and the nation’s – independence. In the sixteenth century, Dalarna had withstood the Danish invasions and had supplied the wherewithal that enabled Gustavus Vasa to rally Swedish forces to liberate the country. The province’s citizens cherished their reputation for steadfastness in character and for their determined independence. Throughout his life, Myrdal spoke proudly about his links with that tradition.

Myrdal spent his adolescent years in one of the better public high schools (the Norra Real) in Stockholm. In 1918, he enrolled in the University of Stockholm to study law. An acquaintance made in the summer of 1919 was to have a career-reorienting impact. He then met Alva Reimer, an attractive young woman 3 years his junior. Educationally ambitious and possessed with a lively intellectual curiosity, she felt stifled in a family that offered little support for her aspirations. Her father, though a social democrat by conviction, did not fully appreciate her strengths, and her mother, who led the life of a recluse, was emphatically unsympathetic. Such attitudes were not all that unusual in the Sweden of that time: conventions of the day held that most women should confine themselves to household duties and that exposure to higher education – with a few exceptions – should be the exclusive province of men.

The collaboration between Gunnar Myrdal and Alva Reimer (who became Mrs Myrdal in 1924) was to be highly productive over the years. For Alva, the Gunnar connection was intellectually liberating and a catalytic agent in her successful quest to complete a degree in psychology. For Gunnar, the Alva connection – with her background in the Social Democratic youth movement – energized his consciousness with regard to society's imperfections.

In 1923, Gunnar completed a degree in law from the University of Stockholm. This event coincided with a realization that a legal career was not to his taste. The life of a lawyer, he then concluded, would fail to satisfy his desire to understand how societies really functioned. At Alva's urging he decided to take up advanced studies in economics. As he later wrote,

I passed my LL.B. . . . in a relatively short time already in the spring of 1923. But I was, then, intellectually quite completely crushed and deeply depressed. It was Alva who saved me. She suggested that I should devote myself to a study of political economy which was more like the natural sciences and mathematics. She purchased Gustav Cassel's *Theoretische Sozialökonomie*. I found parts of it somewhat incomprehensible, but realize now, when I leaf through the old copy, that my old queries were fairly correctly placed. I then took it upon myself to read through all that was printed in the *Economisk tidskrift* from the first volume in 1899.<sup>1</sup>

## The state of Swedish economics in the mid-1920s

For anyone embarking on professional studies in economics in the 1920s, Stockholm was a very good address. The country was small – Sweden's population at that time was approximately six million – but it contained a constellation of stars in the discipline. On a *per capita* basis, no other country could match Sweden's production of economists of international stature.

In the eyes of contemporaries, the most prominent among them was Gustav Cassel (1866–1944), the occupant of the major chair at the University of Stockholm from 1904 to 1933. Indeed, he was reckoned to be the foremost economist in the world in the 1920s. In Schumpeter's assessment, Cassel was 'the most influential leader of our science in the 1920s – for such he was, whatever his critics (including myself) may say.'<sup>2</sup> His reputation was built on his analysis of the international monetary situation, post-World War I, in which he was an uncompromising advocate of restoration of the gold standard. In addition, his theoretical discussion of the conditions required in a uniformly progressing state – in which he maintained that the rate of growth in income should equal the rate of growth in the stock of capital – has been credited with anticipating by at least a decade and a half a central insight that would later be identified with the Harrod–Domar growth model.<sup>3</sup>

Cassel's textbook – *The Theory of Social Economy* – went through multiple editions in various translations and enjoyed a multinational audience. He was a conspicuous, as well as a frequent, commentator on economic issues in the popular press. As a teacher and lecturer, he was a force who won the acclaim of his students, including those who did not share his conservative political perspective. He and Myrdal were to form a close bond, even though they certainly did not see eye-to-eye politically. In an obituary notice, Myrdal spoke warmly about Cassel's ability to inspire students and colleagues and about his dedication to the highest standards of scholarship.<sup>4</sup> Myrdal also respected Cassel for 'a healthy realism in his approach to economic problems, a desire to avoid metaphysical speculation and to get down to facts and figures.'<sup>5</sup>

An aspect of Cassel's international impact can be observed in the roster of economists who contributed to a *Festschrift* marking his retirement from his chair at the University of Stockholm. Altogether,

14 nations were represented: Sweden, Norway, Denmark, Finland, Switzerland, Belgium, Germany, Hungary, Italy, France, the United Kingdom, Czechoslovakia, the Netherlands, and the United States. In addition, there were two submissions from economists in the employ of the League of Nations Secretariat. Not surprisingly, all the members of Sweden's first team of economists (including Myrdal) contributed. More striking is the fact that the United States supplied more contributors – 12 in all – than any other country. The list was impressive: James Angell (Columbia), J. M. Clark (Columbia), John R. Commons (Wisconsin), Paul Douglas (Chicago), Frank Graham (Princeton), Alvin Hansen (Minnesota), Jacob Hollander (Johns Hopkins), Edwin W. Kemmerer (Princeton), Frank Knight (Chicago), Ernest M. Patterson (Pennsylvania), E. R. A. Seligman (Columbia), and Carl Snyder (New York Federal Reserve Bank).<sup>6</sup>

Cassel's prestige notwithstanding, his economics had its idiosyncrasies. For example, he rejected the marginal utility approach to the theory of demand, a position for which he was roundly criticized. (Myrdal, it should be noted, faithfully absorbed this bit of Cassel's doctrine.) Cassel's insistence on purchasing power parity as the explanation of foreign exchange rates was also a target of criticism.

Another formidable figure was Knut Wicksell (1851–1926). Unfortunately, his creativity was better appreciated posthumously than it was during his lifetime. He was among the pioneers in the formulation of the marginal productivity theory of income distribution. The achievements for which he is best known are associated with his account of aggregative economic instability. The root of this problem, he maintained, could be traced to divergences between the market rate of interest and the natural rate of interest (defined as the rate that would equilibrate the flow of savings with the sums sought by investors in capital goods). When the market rate fell below the natural rate, capital spending would generate inflationary pressures; conversely, if the market rate exceeded the natural rate, the economy would be subject to deflationary pressures. Price level stability could be achieved only when the two rates converged. Wicksell's teaching also had a further message. Departures from equilibrium could not be expected to be self-correcting. On the contrary, they might well breed further departures from the initial position. This conclusion reflected Wicksell's conception of cumulative causation in which an initial disturbance would have an inherent tendency to magnify itself. After

his death, these features of his analysis gained increased resonance with the crisis of the Great Depression. (The younger generation of Swedish economists, including Myrdal, who came into professional maturity in the late 1920s and early 1930s regarded themselves as neo-Wicksellians and were to be known as members of the 'Stockholm School.')

It is sad to report that Wicksell's contemporaries did not come to terms with his analytic originality. This failing can largely be attributed to the fact that their vision was obstructed by Wicksell's unconventional lifestyle (which contained much to disturb bourgeois sensibilities). He preached neo-Malthusianism and spoke openly about the importance of insuring easy access to contraceptives. But that was not all. He had a common law marriage; he refused to swear an oath of allegiance to the King; and he argued that Swedish defense against, say, an invasion from Russia would be futile and that it would be best to scrap the military establishment. Rather late in life, Wicksell managed in 1901 to secure a professorial post at the University of Lund, which he held until retirement in 1917. He then moved to Stockholm, where he remained professionally active as a member of the Economics Club, as a sometime consultant to government, and as an informal adviser to graduate students. Wicksell's influence was very much a part of the economics culture that Myrdal knew as a graduate student, but there is no evidence of personal acquaintance between the two.<sup>7</sup>

Little known outside Sweden, but a force within it, was David Davidson (1854–1942). He occupied a chair at the University of Uppsala from 1889 until his retirement in 1919. His commentaries on monetary issues were admired by contemporaries, but they appeared only in Swedish (as was the case with all of his writings). He made a fundamental contribution as the founding proprietor and editor of Sweden's first economic journal, *Ekonomisk tidskrift*, which appeared in 1899. (This journal was rechristened in 1965 as *The Swedish Journal of Economics* and was published in English. In 1975, it was transformed once more as *The Scandinavian Journal of Economics*.) Davidson's initiative – in which a journal was used as the primary vehicle for professional communication – was clearly in keeping with advanced practice in other countries.<sup>8</sup>

One of the younger members of the constellation, Eli Heckscher (1879–1952), a chair-holder in the University of Stockholm,

specialized in economic history. He was also an able economic theorist: an article he published in 1919 formed the basis for what later became known as the Heckscher–Ohlin theorem positing that countries tend to export commodities produced through intensive use of the home factors available in relative abundance. Throughout his career, he resolutely called for greater attention to theory in the writing of economic history. Though he produced highly regarded histories of Sweden, the work for which he is best known internationally is a classic study of *Mercantilism*, which appeared in an English translation in 1935.

Gösta Bagge (1882–1951), the youngest member of the group, was appointed to a chair in the University of Stockholm in 1921 that was designed to promote specialist studies in social policy. He was conservative by instinct and later became the head of the Conservative Party. His interaction with other economists in the early 1920s was restricted because of his discomfort in the company of Wicksellian radicalism. Nevertheless, he proved to be a stalwart in procuring funding from the Rockefeller Foundation in New York to finance ambitious historical studies of national income, wages, and the cost of living in Sweden. Myrdal was later to participate in a part of this enterprise.

Though their specialisms were different, each of these figures spoke with a distinctive voice. Most, however, shared a common political persuasion. Cassel, Davidson, and Bagge took a conservative line and were generally suspicious of government intervention in the economy. Heckscher was similarly disposed: after all, his study of mercantilism had been a sermon denouncing the wrong-headedness of government attempts to manage the economy. Wicksell was the outlier. He stood for social democracy and endorsed experimentation with socialist initiatives. Wicksell took particular pains to distance himself from Cassel. In 1919, he published a devastating review of Cassel's *Theory of Social Economy* in the *Ekonomisk tidskrift*. Cassel was faulted on substantive issues – for example, his rejection of marginal utility was sharply attacked. Wicksell was further disturbed by a more general shortcoming in the work, namely Cassel's propensity to claim ideas as original that had, in fact, been appropriated from others. For example, he wrote that 'Cassel's indebtedness to [Walras] is obviously very great, but instead of showing the gratitude he ought to have expressed, he does not mention Walras' name once in the

whole book.<sup>9</sup> Thereafter, Cassel and Wicksell were not on speaking terms.

These differences notwithstanding, the Swedish stars of the 1920s shared some fundamental presuppositions. They all believed that the discipline of economics should be of service to the common good. And they also believed that professional economists had a responsibility to inform public opinion. To that end, they all contributed to public debate by publishing in the popular press.

Altogether, graduate students at the University of Stockholm in the mid-1920s had a wealth of resources to draw upon. But they did not rely solely on the stimulus that the professoriate could provide. There was a pool of talent within their own ranks and it would reach maturity in the early 1930s when a second generation of stars identified themselves as members of the 'Stockholm School.' In addition to Myrdal, this group included Erik Lindahl, Bertil Ohlin, Erik Lundberg, and Dag Hammarskjöld.

### **Graduate studies in economics**

In 1924, Myrdal embarked on a doctoral degree program at the University of Stockholm with Cassel as his mentor. Myrdal expressed a desire to investigate the dynamics of pricing, a proposal that Cassel warmed to. In his own work, Cassel had elaborated the Walrasian version of neo-classical price theory (even if the stimulus from Walras remained unacknowledged). The achievement here was a demonstration that equilibrium prices could be established simultaneously throughout the economy, subject to certain restrictive conditions. But this – as Cassel recognized – was by no means the end of the story: the method employed was essentially static. Cassel's formulation proceeded from the premise that three determinants of prices were given: tastes of buyers that shaped the character of demand; the technical conditions of production; and the quantities available of the factors of production.<sup>10</sup> Over time, these preconditions might well be subject to changes arising from exogenous forces, and the path toward a new equilibrium could then be examined. But the nature of the initiating change itself was not within the purview of this analytical setup.

As Myrdal acknowledged, his doctoral dissertation – entitled *Prisbildningsproblemet och föränderligheten* (*The Problem of Price Formation*

*and Changeability*) – was structured within a Casselian framework. He later recalled, ‘My first major theoretical work on the integration of anticipations into the theory of price formation owes much to Cassel, and more in regard to general approach than to details.’<sup>11</sup> But he quickly moved beyond Cassel by arguing that a fourth primary determinant of prices should be incorporated into the analysis, namely expectations about the future course of prices. Such anticipations could be expected to play a crucial role in the behavior of buyers and sellers. According to Myrdal, ‘changes whether they are completely foreseen or not exert their effects on the economic process long before they actually take place’ because ‘price formation takes place in human minds.’<sup>12</sup> Different states of expectation could be imagined, each with differing effects on equilibrium prices. But, in each instance, the dynamic outcome would differ from that reached under static conditions. This was the core issue in Myrdal’s conception of dynamic theory.

There was innovation in this procedure, but it should be noted that it was embedded in a neo-classical tradition that Myrdal was later to reject forcefully. At this early stage in his career, he was obviously comfortable with – and proficient at – abstract model-building. Inherent in this intellectual style was hostility toward the institutionalist approach to the discipline with its suspicions about the usefulness of abstract theorizing. Indeed, from that perspective, what Myrdal projected as ‘dynamic’ in 1927 was hardly ‘dynamic’ at all. A truly dynamic approach would require – as an institutionalist like Thorstein Veblen would maintain – that the analyst should properly focus on explaining what caused changes in tastes and techniques. That line of argument was then alien to Myrdal’s way of thinking. He would later reverse himself on the relevance of an institutionalist perspective. Late in life, he expressed doubts about his capacity at that stage to comprehend the theoretical arguments he had deployed in *The Problem of Price Formation and Changeability*.<sup>13</sup>

Myrdal’s dissertation won him a doctoral degree with the highest possible honors. This gave him the credential necessary to pursue an academic career. This study has not been translated from the Swedish, despite Cassel’s urgings. Concerning the absence of an English translation of the dissertation, Cassel wrote as follows in December 1929 (when both Myrdals were in the United States as recipients of fellowships funded by the Rockefeller Foundation):

You say that you are tired of your theoretical studies and you look upon the English translation as a task which is too trying. . . . But do not think that you can leave the great problem of changeability, which you have now made a first attempt to put in its proper perspective within the economic theory. . . . I have tried to widen the static viewpoint and to extract from it as much as possible. I also believe that the foundation I have given to this field must last and form the starting point in elementary teaching. . . . The foundation of the dynamic economy is your task and some day you have to reach such a clarity in this matter, that you can give the world an elementary and fully understandable guidance to the dynamics of the economy. This is after all the categorical imperative, which life has put in front of you.<sup>14</sup>

The lack of an English or German translation meant that the work had little impact beyond Sweden. A complimentary notice by Myrdal's friend, Erik Lindahl, did appear in the *Economic Journal* (the organ of Britain's Royal Economic Society) in 1929. Lindahl described it as 'an advance in the right direction.'<sup>15</sup>

Though *The Problem of Price Formation and Changeability* was cast in a mold that Myrdal later abandoned, it did introduce two themes that persisted in his later work. Emphasis on the impact of expectations on economic performance foreshadowed the *ex ante* and *ex post* conceptions of saving and investment developed in *Monetary Equilibrium* in its second version in 1933. The attention to mental states more generally is congruent with aspects of the argumentation in *An American Dilemma: The Negro Problem and Modern Democracy*, 1944.

## Notes

1. G. Myrdal, as quoted by Kumaraswamy Velupillai, 'Reflections on Gunnar Myrdal's Contributions to Economic Theory,' *Gunnar Myrdal and His Works*, Gilles Dostaler, Dianne Ethier, and Laurent Lepage, eds (Montreal: Harvest House, 1992), pp. 133–34.
2. J. A. Schumpeter, *History of Economic Analysis* (Oxford University Press, 1954), p. 1154.
3. An English translation of Cassel's text on this point is reproduced by P. Streeten, the author of Appendix 3, Volume 3 of *Asian Drama: An Inquiry into the Poverty of Nations* (New York: Twentieth Century Fund, 1968), pp. 1969–70.

4. G. Myrdal, 'Gustav Cassel in Memoriam (1866–1944),' English translation by G. Ohlin, *Oxford Institute of Economics and Statistics Bulletin*, 25 (February 1963), 1–10. This obituary originally appeared in Swedish in *Ekonomisk revy*, February 1945.
5. G. Myrdal, *Value in Social Theory* (London: Routledge and Kegan Paul, 1958), p. 242.
6. See *Economic Essays in Honour of Gustav Cassel* (London: George Allen and Unwin, 1933).
7. Wicksell's colorful career is marvelously captured in the biography written by T. Gårdlund. See Gårdlund, *The Life of Knut Wicksell* (Stockholm: Almqvist and Wiksell, 1958).
8. Launching of professional journals in economics was very much in vogue in the later nineteenth century. In Britain, the Royal Economic Society produced the *Economic Journal*, starting in 1890. In the United States, the first wave of journals was associated with universities eager to promote newly established graduate programs: for example, *The Quarterly Journal of Economics* (Harvard, 1885); *The Political Science Quarterly* (Columbia, 1886); *The Journal of Political Economy* (University of Chicago, 1892). The American Economic Association was founded in 1885, but did not establish its own journal – *The American Economic Review* – until 1910.
9. K. Wicksell, 'Professor Cassel's System of Economics,' reprinted in his *Lectures on Political Economy*, Volume 1, p. 225. This review has been reproduced in *Swedish Economics 2*, B. Sandelin, ed. (London: Routledge, 1998).
10. G. Cassel, *The Theory of Social Economy*, 1923, p. 152, as reported by B. A. Hansson, *The Stockholm School and the Development of Dynamic Method* (London: Croom Helm, 1982), p. 30.
11. G. Myrdal, *Value in Social Theory*, p. 242.
12. As quoted by B. A. Hansson, *op. cit.*, p. 33.
13. As reported by P. Streeten.
14. Cassel to Myrdal, 9 December 1929, as quoted by B. A. Hansson, *op. cit.*, p. 32.
15. Erik Lindahl, Review of 'Dynamic Pricing' by G. Myrdal, *Economic Journal*, 39 (March 1929) 89–91.

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