

3-15-2018

# Working Paper No. 08, A Non-Equilibrium Approach to Economics: Towards an Intellectual Biography of Gunnar Myrdal

Leo Kendall  
*Portland State University*

Follow this and additional works at: [https://pdxscholar.library.pdx.edu/econ\\_workingpapers](https://pdxscholar.library.pdx.edu/econ_workingpapers)



Part of the [Economic History Commons](#), and the [Economic Theory Commons](#)

**Let us know how access to this document benefits you.**

---

## Citation Details

Kendall, Leo. "A Non-Equilibrium Approach to Economics: Towards an Intellectual Biography of Gunnar Myrdal, Working Paper No. 8", *Portland State University Economics Working Papers*. 8. (15 March 2018) i + 14 pages.

This Working Paper is brought to you for free and open access. It has been accepted for inclusion in Working Papers in Economics by an authorized administrator of PDXScholar. Please contact us if we can make this document more accessible: [pdxscholar@pdx.edu](mailto:pdxscholar@pdx.edu).

# A Non-Equilibrium Approach to Economics: Towards an Intellectual Biography of Gunnar Myrdal

Working Paper No. 8

**Authored by:** Leo Kendall

A Contribution to the Working Papers of the  
Department of Economics, Portland State University

**Submitted for:** EC 446 “Institutional Economics”  
15 March 2019 i + 14 pages

**Prepared for:** Professor John Hall

**Abstract:** This inquiry seeks to establish that Gunnar Myrdal provided a foundation for and also practiced a non-equilibrium approach to economics. Throughout his career, Gunnar Myrdal was tasked with researching and providing policy for some of the most pressing economic issues of the 20th century. This inquiry considers and examines what I have selected as the most important areas of research over the span of Myrdal’s career, while showing how and why a non-equilibrium was required. First, I start with racial inequality and how Myrdal’s research broke ground on the subject. Next, I consider his key contribution towards understanding regional inequality and how this work takes him far from equilibrium economics. Finally, I consider the importance of selected issues in world development, juxtapose these to Myrdal’s career that spanned decades.

**JEL Classification Codes:** B31, F02, N42

**Key Words:** Gunnar Myrdal, Non-Equilibrium, Racial Inequality,  
Regional Inequality

Gunnar Myrdal was a Swedish born economist who lived from 1898 to 1987. Some decades of his life coincided with the Civil Rights Movement in the United States and enormous economic changes, associated in America with the New Deal and the Great Society. Gunnar Myrdal took an unusual approach to economics, focusing on the reality of politics and complexity of societal factors. In his key writings, Gunnar Myrdal advanced a non-equilibrium approach to economics. He drew his original inspiration through his research into racial inequality in America. He would spend years trying to shed light on this issue and presented economic policy that could help. He focused on regional inequality, a theory that still explains our economics today. He focused on world development, helping to increase globalization. He was able to popularize many of his ideas, which lead to major pieces of economic policy. He was an unconventional economist who was able to accomplish a great deal in his lifetime.

### **Gunnar Myrdal on Racial Inequality**

One of the most important areas of study for Gunnar Myrdal is that of race and racial inequality. In his book *Against the Stream*, Gunnar Myrdal (2014, 72 - 84) discusses at length the inequalities a person can face because of their race. Myrdal explains that originally, different races were viewed as inferior. Depending on where a people lived, or what their culture looked like, their race may come to be

synonymous with poverty and inferiority to the dominant culture. Because of this, as people of different races were integrated into society, usually by force but later by choice, they lived with serious inequalities enforced by the white power structure. Through his career, Myrdal spent a great deal of time tracking these inequalities and showing that economic policy was created to push people of the “inferior” races, down.

In what may possibly be his most significant work, “Rich Lands and Poor: The Road to World Prosperity,” Myrdal shows in depth how racial inequality directly affects black people in America. Published in 1957, Myrdal (1957, 1 - 39) takes one of the first in depth looks at how economic policy has significantly held back black people in America in the period since reconstruction. Myrdal (1957, 14 - 22) explains that inequality of black people living in densely populated urban centers has become incredibly bad. He uses specific evidence to show that life has become increasingly bad for this group. To illustrate the reason this issue is so problematic, he uses a tool known as the vicious circle. Essentially, without any economic chances in their community to begin with, many people in that community are stuck in poverty. Because the people of this community have very little wealth, they are not able to put money into the community. There is also very little interest from outside companies to invest in this community. Because there is no one investing in the community, and no wealth being built up and spread out in

the community, there is a downward spiral of racial inequality. He also explains that there is significant reason to expect change, and lays out which economic policies might be able to help solve this problem. He explains that the most important thing would be to stop the vicious circle, and invest capital directly into the black community.

In the book, *The Political Economy of Gunnar Myrdal: An Institutional Basis for the Transformation Problem*, by Angresano, the historical impact of Gunnar Myrdal's work on racial inequality is examined. Angresano (1997, 67 - 68) explains that the Carnegie Foundation funded research to look at racial inequality in America. They chose Myrdal to conduct this research because he was a foreigner and they hoped he would be as unbiased and impartial as possible. Angresano explains that Myrdal put together an incredible collection of people to do this research, highlighting his ability to conduct social research at an extremely high level. During his research, Myrdal spent a great deal of time in the American South, studying how the poorest black's actually lived and examining the forces that may be keeping them there.

Angresano (1997, 68 - 69) explains that Myrdal's essay "Rich Lands and Poor: The Road to World Prosperity," and his book *An American Dilemma*, served as enormously significant writings in the history United States race relations and economic policy. Angresano goes on to explain that these writings became so

popular in the US at the time that it actually helped destroy “separate but equal policies.” Myrdal’s heavy focus on this area during the 1950’s and 1960’s helped pump intellectual energy into the civil rights movement of the time. Because of his work in the area, Myrdal is considered “one of the greatest social scientists of his time.” In his conclusion of his findings, Myrdal offered a solution for this problem. He knew that asking for an instant reversal would not be possible, so he proposed a “gradual evolution,” of American society away from discrimination and segregation.

Paul Streeten explains how these works fit into Gunnar Myrdal’s life in his essay “Gunnar Myrdal” Paul (1990, 1031 - 1037) explains that Myrdal’s economic perspective was shaped by his early career into political thought, beginning in 1929. He was commissioned by multiple governments organizations including the Swedish government and the Carnegie Corporation. The Carnegie Corporation is the organization that commissioned his initial examination into race relations in America. An interesting passage in this essay explains that “Myrdal called himself a cheerful pessimist. By this he meant that, however small the chances of success of a desirable reform. Every effort must be made to achieve it.” This explains why Myrdal wrote the articles and books he did about racial inequality in America. He knew how hopeless the situation was, yet he used every possibility he could to

show the reality of the situation to the public. Because of his actions many of the successes of the civil rights movements may not have happened.

### **Gunnar Myrdal on Regional Inequality**

Throughout his career, Gunnar Myrdal developed ideas explaining regional inequality. In particular Myrdal (1957, 23 - 38) explains this theory in depth in his essay “Rich Lands and Poor: The Road to World Prosperity.” The basis of the idea is that areas with a large amount of economic activity tend to draw new economic activity to it. This means that smaller economic areas tend to have a hard time growing. This also means that the children born and raised in less wealthy areas will have a hard time finding work and will likely leave to a more prosperous economic area. Because of these forces, a vicious circle can be created which could suck all economic prosperity of a smaller location, leaving it with less and less. These forces can practically destroy a small town, while creating multiple economic powerhouses in areas where there is already a great deal of economic prosperity.

Myrdal continues to flesh out this theory in his essay “Rich Lands and Poor: The Road to World Prosperity.” A major part of this theory for Myrdal (1957, 23 - 38) is the fact that inequality is a normal part of the economic system. He explains that if markets are left alone — without any government regulation — the natural

tendency will be to drift toward inequality. This, he explains, is a further reason smaller, less developed regions trend toward inequality. It is especially rampant in these less developed regions because of the fact that one single industry or company in an area may have so much power, reducing the likelihood of regulation. The fact that these industries or companies are so important to a single town or area leads to another risk. If one of these industries or companies closes down or chooses to move to a more economically powerful area, it could mean disaster for the areas they are in. This could lead to massive unemployment which could in turn lead to mass migration out of the area. This is another way that the devastating effects of regional inequality can be shown.

In his book, *Against the Stream*, Gunnar Myrdal takes a slightly different approach to explaining regional inequality. Myrdal (2014, 66) begins by explaining that many people have either the truth mixed up, or have no knowledge of what is true. To him, this is particularly evident in regional inequality. Myrdal explains that people view less developed regions as regions that are naturally inferior. However, he explains that this is not true and that there are many different factors that prevent these regions from growing economically. Myrdal (2014, 66) explains that, “the only major change that has occurred in those ‘backward regions’ since the war has been the recent acceleration in the rate of population increase.” He explains that because of the misconceptions about these regions being inferior and

“backwards,” very little energy has been spent researching these areas. In fact, he explains that since colonial times, these regions were often disregarded and very rarely studied.

Myrdal (2014, 169 - 181) continues in this book to explain different factors that can increase regional inequality. He explains that because of the limited amounts of economic prosperity and high unemployment, undeveloped regions can face greater amounts of unrest which can lead to violence and war. Myrdal explains that underdeveloped regions are often more susceptible to the initiation of wars, especially civil wars. Myrdal also explains that during the Cold War, these regions were especially important. In particular these regions were used as the locations and battlegrounds for the physical wars themselves. Because the major superpowers did not want to fight wars in their own countries and also in developed regions — because of the economic cost — they chose to fight their proxy wars in undeveloped regions. This has historically been the ways wars have been fought, in areas without major economic prosperity. This only leads to worse inequality and disparity of wealth between developed and undeveloped regions.

In his essay, “Gunnar Myrdal,” Paul Streeten examines how Myrdal came to be interested in regional inequality. Streeten (1990, 1033 - 1034) explains that Myrdal began his work on regional inequality originally because of his interest in non-equilibrium economics. Streeten explains that Myrdal’s continued theories

away from non-equilibrium economics lead him to understand that economic theory should be as complex as the world we live in. Myrdal began to develop theories based on the complexity of society. This all came together when he began his research into regional inequality. Regional inequality is an extremely complex issue and force, that Myrdal insists cannot be studied using equilibrium theory. Instead, to truly understand the multitude of different forces affecting regional inequality he abandoned equilibrium in favor of a more complex and fluid theory. Because of his work in this area he popularized both regional inequality and the beginning of non-equilibrium economic theories.

In the book *The Political Economy of Gunnar Myrdal: An Institutional Basis for the Transformation Problem*, Angresano (1997, 1 - 29) explains that Myrdal's most important work was in his regional inequality theory. Through his early life Myrdal was commissioned by multiple foreign governments to conduct economic research. In conducting this research he discovered the deep inequalities that existed between developed and undeveloped regions in Europe. He explains that this theory was the one of the first major economic theories to abandon and work apart from traditional equilibrium theory. He explains that this theory created by Myrdal both worked to popularize non-equilibrium theory and regional inequality.

## **Gunnar Myrdal's Insights into World Development**

Gunnar Myrdal is known for being a worldly economist, meaning he was well connected with the events of the world and the different economic forces affecting those events. Myrdal was a historical scholar and studied world history much more in depth than most economists. This gave him the unique ability to be able to understand why the world was the way it was, and what were the most powerful forces in the world. Because of this he became a renowned economist who was able to find a job practically anywhere in the world. He worked for multiple governments across the world including Sweden's and America's. In his lifetime he lived through both World War I and World War II which allowed him to see first hand the horrors of war, but also to see what events come before wars and what events end them. Because of this background in world history, and his experience living around the world, he became a staunch advocate for globalization and world development.

In his book, *Against the Stream*, Gunnar Myrdal examines the global economy, global events, and global development. Myrdal (2014, 268 - 290) explains that in his lifetime, he witnessed the massing of power by the United States. He explains that "the world had now entered the 'American century,' when United States policies would be the determining influence for world development." This meant that the United States had the greatest amount of power to affect

change in the world. Myrdal goes on to explain that the United States uses this power for its own benefit, but also for the global good. Helping to end World War I and World War II was an incredible feat. However, its colonialism policy in the world began to look like broad overreach of power. Myrdal states that he believes that global policy should be towards reducing poverty and inequality. He believes that it is the responsibility of the major economic countries to help smaller, less developed countries rise in economic wealth.

In his essay "Gunnar Myrdal," Paul Streeten explains the ways in which world forces helped shape Gunnar Myrdal's economic studies. Streeten (1997, 1033 - 1036) explains that Myrdal's large focus on world development was largely due to the period he lived in. With so many enormously consequential world events in his lifetime, he was able to see first hand the beginnings of globalization. Streeten explains that Myrdal saw many injustices and inequalities in the world, and made it a major focus of his to help shed light on these. Myrdal studied major economic forces in his career, which helped shed light on the complexities of the world. These complexities showed Myrdal that the world was not as simple as just equilibrium economics suggest, and helped him develop his theories against simple equilibrium theory.

In the book *The Political Economy of Gunnar Myrdal: An Institutional Basis for the Transformation Problem*, Angresano (1997, 70 - 78) explains that Myrdal's

role of Executive Secretary for the United Nations Economic Commission for Europe helped push him toward world development. In this position he helped with reconstruction for European countries after World War II. In this position he saw how putting economic development into areas that were war torn or were undeveloped, helped them grow to become economically prosperous. He used this position to try progressive new economic policies and in doing so, helped make many of these areas in Europe economically prosperous.

Later on in Angresano's book, he examines Myrdal's ideas for economic development in less developed states. Angresano (1997, 101 - 105) explains that even in this respect, Myrdal's reluctance to use non-equilibrium economic theory would show. Myrdal was based completely in reality and always considered the many complex factors that exist when dealing with economic problems in real life. In this case, his realism led to legitimate results, as he helped develop many of the countries he was hired by.

### **Conclusion:**

This inquiry has sought to establish that in his key writings, Gunnar Myrdal advanced a non-equilibrium approach to economics. Born in 1898 in Sweden, Myrdal lived a full life as a worldly economist. His studies of world history and world economics, helped propel him as one of the leading economists of his time.

He lived through an enormously transformative period of history, with World War I and II occurring in his youth. Because of this, he was able to understand the true importance of his economic work and of economic stability worldwide. Myrdal's research into racial inequality in America helped bring the topic into the forefront of politics. Many think that his work helped contribute to some of the biggest successes of the Civil Rights Movement. Myrdal's research into regional inequality helped bring to light how current economic policy only increases wealth in already developed areas, while undeveloped areas see stagnation or regression. This work helped create a new form of economic theory that did not rely on equilibrium theory. This new non-equilibrium theory helped look at economics in a more realistic sense, taking into account the complexities of society. Myrdal also helped push for world development, while showing that world poverty and inequalities were plagues on our society.

## **Bibliography**

- Angresano, J. (1997). *The Political Economy of Gunnar Myrdal: An Institutional Basis for the Transformation Problem*. Cheltenham, UK; Lyme, NH: Edward Elgar.
- Myrdal, Gunnar. "Rich Lands and Poor: The Road to World Prosperity." *World Perspectives*, Volume 16, 1957, p. 1 - 39.
- Myrdal, Gunnar. *Against the Stream: Critical Essays on Economics*. Palgrave Macmillan, 2014.
- Streeten, Paul. (1990). Gunnar Myrdal. (Swedish Nobel laureate). *World Development*, 18(7), 1031-1037.