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**Hayek-Myrdal Interactions in the Early 1930s:
New Facts Change an Old Story**

by Lars Jonung and David Laidler

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Hayek-Myrdal Interactions in the Early 1930s:

New Facts Change an Old Story

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Lars Jonung and David Laidler¹

Abstract. It is widely believed that Friedrich von Hayek's first encounter with Gunnar Myrdal involved the latter's last-minute contribution, as a replacement for Erik Lindahl, to a *Sammelband* edited by the former in 1933, and that Hayek was lukewarm towards Myrdal and his ideas from the very beginning. Correspondence between the two shows that, in fact Myrdal was among Hayek's original invitees, and that their relationship was co-operative and cordial for two years prior to the publication of this collection. We suggest that the content, and perhaps even more, the tone of Myrdal's paper, originally intended for the *Journal of Political Economy*, alienated Hayek, who nevertheless treated Myrdal's work with academic propriety thereafter. The origin of Myrdal's famous *ex post* – *ex ante* terminology is also revealed.

Key Words: Hayek; Myrdal; Stockholm School; *ex ante* – *ex post*.

JEL Classifications: B2, B3, E1, E2, E3.

¹Professor Emeritus, University of Lund and Professor Emeritus, University of Western Ontario, respectively. We have benefitted from discussions on earlier drafts of this paper with Roger Backhouse, Benny Carlson, David Glasner, Harald Hagemann, Björn Hansson, Susan Howson, Gerald O'Driscoll, Bo Sandelin, Claes-Henric Siven and Hans-Michael Trautwein. The Swedish Labour Movement's Archives and Library in Stockholm and the Department of Collections at Lund University Library have provided excellent support in making available to us correspondence between Swedish economists, Friedrich Hayek, Gerhard Mackenroth and Jacob Viner. Much of this correspondence has not been examined in depth before. Permission to quote from Hayek's unpublished correspondence was granted by the estate of F. A. Hayek.

I. An Old Story

When, in 1974, the Royal Swedish Academy of Sciences awarded the Bank of Sweden Prize in Economic Sciences in Memory of Alfred Nobel to Friedrich von Hayek and Gunnar Myrdal “for their pioneering work in the theory of money and economic fluctuations and for their penetrating analysis of the interdependence of economic, social and institutional phenomena”, it ensured that their names would be permanently linked in the History of Economics.² And, if contemporary gossip was to be believed, the Academy also, and perhaps not unknowingly, diluted some of the pleasure that each of them derived from being so honoured.³

That same gossip also had it that their personal relationship had been consistently cool from their earliest encounters. Hayek and Myrdal had, after all, differed profoundly on matters of social and political philosophy, not to mention fundamental issues of economic theory and policy, throughout their careers. Hayek was a leading exponent of traditional Liberalism; and believed in the inherent stability of unregulated markets. The arguments of *The Road to Serfdom* (Hayek 1944) are too well known to need rehearsal here. Myrdal, to the contrary, was a champion of the activist state, not afraid to limit individual freedoms if the public interest was at stake; and for him, unregulated markets were inherently and perhaps explosively unstable unless subjected to constant fiscal and monetary intervention. As he put it in Myrdal (1951), but without citing Hayek, “There is no alternative to economic planning . . . All this talk about economic planning leading us straight to the police state . . . is just bunk”.

And yet there is one odd twist to this otherwise straightforward story. In 1933, when both of them were what we would nowadays call rising “superstars” in economics – Hayek was born on May 8th, 1899, and Myrdal on December 6th, 1898 - the German language version of Myrdal’s *Monetary Equilibrium* (English

² The official announcement of the Royal Academy of Sciences as printed in *Swedish Journal of Economics*, 1974, vol. 76, no 4, pp. 468-471.

³ Laidler recalls a fall 1973 conference dinner conversation in Keil between Erik Lundberg, a member of the Nobel committee, and Herbert Giersch, director of the Kiel Institute for the World Economy, in which Lundberg enquired about the likely reaction outside of Sweden to an award of the prize to Myrdal. Giersch speculated that sharing the award with someone holding neither Myrdal’s views nor nationality might help with its acceptability. He suggested Hayek. See Laidler (2013) for further details.

translation, Myrdal 1939), was published in a *Sammelband*, a collection of essays edited by none other than Hayek.

This essay would subsequently be hailed by some commentators as having anticipated the central findings of Keynes' (1936) *General Theory*, which in turn would put a decisive end to the progress within the discipline's mainstream of Hayek's own macroeconomic ideas about the inherent stability of capitalism unless disturbed by unwise monetary activism.⁴ Myrdal himself (1982, p. 169) considered "this article my most important contribution to the evolution of the ideas of the Stockholm School", that loosely coordinated group of Swedish economists who had begun to mount a serious challenge to those ideas even before 1936. How, then, did Hayek come to play such an important role in promoting an approach to economic analysis and policy so contrary to his own, and indeed so dangerous not only to its own professional survival but also perhaps to that of the whole Liberal tradition in political economy that it represented?

In a 1974 letter to Gerald O'Driscoll, Hayek provided what seemed to be a convincing answer.⁵

"Perhaps you overrate the influence which the post-Wicksellian Swedish development had on me. I had got much interested in what I had heard about Erik Lindahl's ideas but could not adequately follow them in Swedish. So I asked him for a contribution when I prepared that volume *Beiträge zur Geldtheorie*. He found he could not do it in time and recommended Myrdal

⁴ The issue of who should be given how much credit for their *Anticipations of the General Theory* (to recall the title of Don Patinkin's (1982) magisterial survey of the topic) is far beyond the scope of this paper. Suffice it to note that Myrdal has, from the very beginning, ranked high on the list of claimants. Despite this fact, his Nobel Prize announcement did not mention *Monetary Equilibrium*, (Swedish version 1931, German version 1933 and English version 1939) the work on which these claims rest. However, Erik Lundberg (1974), a member of the 1974 Economic Science Committee of the Royal Academy, in his short survey of Myrdal's contribution to economic theory, following the official announcement, mentioned all three versions of Myrdal's *Monetary Equilibrium* and their relationship to Myrdal's dissertation of 1927, Myrdal (1927). Bertil Ohlin was the chairman of the Economic Science Committee in 1974.

⁵ This letter, dated August 1974, thus written prior to the announcement of the Prize on October 9th, was prompted by a request from O'Driscoll to Hayek for comments on what would become O'Driscoll (1978). In response to it, O'Driscoll softened his original speculation that Hayek's own work might have been influenced by Myrdal's ideas. We are grateful to O'Driscoll for this information.

instead. When I received the latter's essay I did not like it at all and only very reluctantly published it because I could not help it in the circumstances. I am still puzzled why it should have become the best-known contribution to that volume. (This story had better not be published while Myrdal and I are both alive!)" (Hayek to O'Driscoll, August 25, 1974. Multiple obvious typographical errors corrected by the authors.⁶)

This account of the young and ambitious Hayek as a surprised and reluctant editor of what turned out to be an immensely influential work by the equally young and ambitious Myrdal would in due course find its way into the secondary literature, (e.g. Hans-Michael Trautwein (2005), William Barber (2008, p. 25) and is by now widely accepted. Small wonder, because it ties up an unsightly loose end in an otherwise extremely simple tale of two by now inseparable Nobel laureates who were nevertheless at intellectual, and perhaps personal, odds with each other throughout their careers.

II. Some New Facts

The facts that we shall now present, however, show that Hayek's 1974 letter to O'Driscoll is misleading. A record of these facts is to be found in correspondence, mainly between Hayek and Myrdal, but occasionally involving Lindahl, Jacob Viner and Gerhard Mackenroth as well, that is preserved in archives in Lund and Stockholm. Although some of this correspondence has been consulted before by scholars studying the development of Swedish monetary and business cycle theory in the early 1930s (See, e.g. Björn Hanson 1982, chapter VI), the history of the interactions between Myrdal and Hayek that it reveals has until now gone unnoticed.⁷

To be more specific, this correspondence shows that Hayek's 1974 account, quoted above, is misleadingly oversimplified, although it contains no outright falsehoods. Hayek *did* invite Lindahl to contribute to his *Beiträge*, in a letter dated August 3rd,

⁶ Elsewhere in this paper, quotations from material written in English are verbatim.

⁷ There is no trace of Hayek's important correspondence with Swedish economists in the archive of his papers held at the Hoover Institution at Stanford University. The sources we have used in preparing this paper are thus unique and important. Bruce Caldwell has suggested to us that Hayek's own records of his correspondence are thin during periods when he was moving between appointments. The years 1930-33, the focus of this paper, saw him moving from Vienna to London.

1931; Lindahl *did* accept his invitation; and on May 25th, 1932 he *did* write to Hayek, telling him that, because of pressure from other commitments, he would be unable to complete his contribution; and finally in that same letter, Lindahl *did* recommend Myrdal as a replacement. All of this is just as Hayek described it in 1974.

But the words which Lindahl used in that May 25th letter to make his recommendation show that there is more to the story.

I am glad, however, to hear from Myrdal, that *he is inclined to reconsider your old invitation* from last summer. Myrdal could more than make good the lack of my contribution. . . . *You know Myrdal* and he will give the best representation of the Swedish point of view. He has told me that the title will be “Der Gleichgewichtsgedanke in Geld-und Konjunkturtheorie” or something of this type. (Lindahl to Hayek, May 25th, 1932, italics added)

Lindahl then went on to make specific suggestions about how arrangements to facilitate the change in author could be made with both the publisher and the proposed translator Gerhard Mackenroth. So, in 1974, Hayek failed to mention that he already knew Myrdal in 1932 and had previously invited him to contribute to his *Beiträge*.

Correspondence between Hayek and Myrdal enables us to fill in more details. A letter from Hayek to Myrdal, written from Tyrol on August 3rd, 1931, the same day as the first of his above-mentioned letters to Lindahl, and originally written in German, begins:

As you told me when we last met in Geneva, you are currently working on a study of monetary theory. I would now like to ask you if you would like to participate in a plan that I have been working on for some time. I would like to publish an anthology in which those authors who have published important contributions to monetary theory in recent years, but which have appeared in neither German nor English and are therefore not accessible to the majority of economists, are to present their teachings in German.

This letter also informs Myrdal that “At the same time I would like to ask Prof. E. Lindahl, Mr. H. W. Holtrop and J. G. Koopmans” to contribute, and it expresses the hope

that you will be willing to collaborate on such a work and that in your contribution, in addition to your new work on monetary theory you will also incorporate the important ideas from your “Prisbildningsproblemet och föränderligheten” (Hayek to Myrdal, August 3rd, 1931, original in German).)

Myrdal replied (in English) to this invitation on September 5th.⁸ He noted that he had written very little on “the monetary problem” and that what he had written, he would “like to get translated more in the form that they have (sic)”. He also mentioned that he was planning to write “a little article” on the “very conception ‘natural rate of interest’”, but noted that that it was not yet written and would be “very restricted in scope”. He ended his letter by suggesting that, in addition to Lindahl, Hayek might consider inviting David Davidson to contribute to his volume and also think about contacting Knut Wicksell’s son Sven Wicksell about having some of his father’s work translated into German for inclusion in the planned collection.⁹

Hayek responded on September 18th with a long letter in German in which he sought Myrdal’s further advice about contacting Davidson and Sven Wicksell, and he also gave Myrdal instructions about how to deal with the technicalities of submitting his contribution to the forthcoming *Beiträge*. Myrdal replied on

⁸ Myrdal’s first (associate) professorial appointment was at the Graduate Institute for International Studies in Geneva in 1930-31. The work that Hayek refers to was Myrdal’s doctoral thesis, Myrdal (1927), which remains untranslated to this day, though, unusually for such a document, it was the subject of a review (Lindahl 1929) in the *Economic Journal*. Readers might note that *Monetary Equilibrium*, the essay whose early publication history is the subject of this paper, was not, as is sometimes suggested, largely based on this thesis. It broke much new ground. But the two works have in common a heavy stress on the importance of what Myrdal’s translators have called “anticipations” in economic decisions. See Lundberg (1974). See also Hansson (1982, chapter VI) and Siven (2006) on the background to *Monetary Equilibrium*.

⁹ David Davidson, born in 1854, was at this time the still intellectually active doyen of Swedish economics. He was the founder of *Ekonomisk Tidskrift*, now the *Scandinavian Journal of Economics*. He remained its editor 1899-1939. His international reputation falls short of those of his contemporaries, Knut Wicksell and Gustav Cassel, mainly because he wrote and published exclusively in Swedish. Knut Wicksell died in 1926. His son Sven Wicksell was professor of statistics at Lund University 1926-1939.

September 26th in English. He thanked Hayek for the proof copy of *Prices and Production* (Hayek 1931a) that he had sent with his letter, and the

copy of your important article on Keynes's Treatise on Money ... I notice with great pleasure that your general attitude to Keynes' book is the same as mine ... the fundamental weakness underlay (sic) his theory is his superficial and ... erroneous conception of profit.

He then went on to answer Hayek's query about how to involve Wicksell and Davidson in the forthcoming *Beiträge*, before finally getting to his main point:

I see from your letter that you misunderstood (sic) me in so far as you thought that I myself had a contribution to make. In fact I have only written this article on the "national (sic) rate of interest" and as I hope to get it published in English at about the same time there is no reason to ask for a place in your Sammelband for it. (Myrdal to Hayek September 26th, 1931)

Here the matter of Myrdal's contribution to Hayek's volume rested for the time being, although correspondence about dealings with Davidson and Sven Wicksell continued.¹⁰

Myrdal's work on his "little paper" on Wicksell's natural interest rate concept also continued. A Swedish version of it was published in the *Ekonomisk Tidskrift* (Myrdal 1931) – a volume which, despite its date was probably published in the early summer of 1932 - and he seems already to have had an invitation to submit an English version of it to the *Journal of Political Economy* from its editor, Jacob Viner. They had formed a warm and as it would transpire, lasting friendship during time spent together at the Graduate Institute in Geneva in 1930.¹¹

¹⁰ We have found no correspondence between Davidson and Hayek. In correspondence with Myrdal, Davidson initially showed some interest in contributing to the project but ultimately decided not to because of the tight deadlines involved. Hayek's *Sammelband* did contain a German translation of Wicksell's final Swedish publication (See Wicksell 1933).

¹¹For a discussion of the delayed publication of *Ekonomisk Tidskrift*, see Patinkin (1982, p. 47).

In the introductory footnote of this Swedish version of his article, Myrdal stated that a more comprehensive presentation of his thinking will appear "in 'Der Gleichgewichtsbegriff als Instrument der geldtheoretischen Analyse'. This study will within the next few months be published by the Springer publishing house in Vienna in an international collection of essays edited by F. A. Hayek." It is from this note that we infer that the publication of the Swedish version occurred in the early summer of 1932, because we also know that Myrdal and Hayek

Then, on May 25th, 1932, the same day Lindahl withdrew from Hayek's project, Myrdal also wrote to Hayek:

You asked me last autumn if I could contribute to the *Sammelband*. But I answered that I couldn't. It was true that I worked on a treatise on Wicksell's "Natural Rate of Interest", but I had promised this article for the Chicago Journal. ... I see now that the article is getting too long and really too intricate to be printed in that journal. ... now I would rather have it published in German. ...

In this situation I ask you if you could still find a place in your *Sammelband* for a treatise in German on the theory of monetary equilibrium involved in the Wicksellian construction. Most of it is already printed in the Swedish *Ekonomisk Tidskrift* but I would like to add some notes on the discussion in Sweden since *Geldzins und Güterpreise*" and especially on Lindahl's last and important contribution" (Myrdal to Hayek, May 25th, 1932). (Italics added to all titles).

Myrdal also tells Hayek that he knows of Lindahl's intention to write to Hayek withdrawing from his project, noting that

this is very regrettable for you as the editor of the *Sammelband*. On the other hand the fact that you will not get anything from Lindahl will give you space for another article. Furthermore, my article to a certain extent substitutes Lindahl's as it naturally would represent his specifically Swedish way of dealing with these problems.

Myrdal ended his letter with a request that Hayek "write as (sic) your decision as soon as possible", and an enquiry as to whether Hayek had succeeded "in persuading old Davidson to write anything".¹² Hayek's brief handwritten reply to

agreed upon publication of the German version in May 1932. Landgren (1957, p. 22) suggests that Myrdal might even have written the Swedish version of *Monetary Equilibrium* in the early months of 1932. We do not have an exact date for Viner's first invitation to write for the *Journal of Political Economy*, but in a letter to Myrdal dated October 11, 1931, he remarks "I hope you will do the Wicksell article for us, and the sooner the better".

¹² This paper is not the place to discuss the substance of the macroeconomic ideas of Lindahl and Myrdal, their similarities and differences. On these matters see Laidler (1999, Chapter 3), Siven

Myrdal, dated May 26th, began “Of course I want your article very much indeed.” but did not mention Davidson!¹³

It is no co-incidence that both Myrdal and Lindahl wrote to Hayek on the same day (May 25th, 1932). Correspondence between them at the time shows that they worked closely together on arranging the handover of this assignment, and a May 30th letter from Lindahl, to Gerhard Mackenroth, then at the University of Halle and the intended translator of his Hayek contribution, confirms that he had already asked Myrdal to take over from him even before he got in touch with Hayek. Mackenroth had already translated Myrdal’s (1930) *Political Element in the Development of Economic Theory* from Swedish into German, so he was well known to Myrdal, and evidently well respected and liked by him as well.¹⁴

As to Myrdal’s commitment to the *Journal of Political Economy*, he finally wrote to Viner on December 20th

I . . . have a bad conscience for not having written that article on Wicksell. . . . May I tell you at once that the manuscript grew longer and longer and more complicated until it was absolutely unusable for your periodical. It is now going to be published in German in a *Sammelband* edited by Hayek . . . I hope you will excuse me; I will write another thing another time for you.

Viner’s first response was good humoured: “I won’t excuse you for not giving us the article you promised, and it will stand against your record on judgement day” (Viner to Myrdal, January 9th, 1933). A second undated letter, written after he had read the Hayek volume version, probably in April 1934, struck a more interesting tone.

“I cannot see why you publish so much in German, when there is so large an English-speaking constituency which would be interested in your ideas . . . It seems to me . . . that your article in the Hayek volume is precisely the article you promised me for the *Journal of Political Economy*. But we will let that pass.” (Viner to Myrdal, letter undated)

(2006) and Trautwein (2005).

¹³ Readers who wonder about the accuracy of the dating of this correspondence should note that, in 1932, there was overnight airmail service between Stockholm and London, with multiple deliveries per day in central London.

¹⁴ For further discussion, see Appendix A: A Note on Gerhard Mackenroth.

Viner may well have let it pass, but our readers might want to speculate on how macroeconomics could have developed, had an English version of *Monetary Equilibrium*, even an abbreviated one, appeared in the *Journal of Political Economy* in 1933!

III. Strains in the Relationship

But to return to what actually happened. We have seen that, in May 1932, Hayek became an enthusiastic editor of Myrdal's essay, not a reluctant one. How much of his eagerness stemmed from the prospect of getting a contribution from an author who had previously rejected his invitation, and how much from so quickly finding a Swedish contribution of any sort to replace Lindahl's, must remain an open question. But, as we shall now show, subsequent events would give him ample grounds for second thoughts about having done so.

The very process of seeing Myrdal's work through to print, in which Mackenroth, located in Germany, was closely involved – for example the famous phrase *ex ante* - *ex post* was his, not Myrdal's – was far from smooth, as subsequent correspondence shows.¹⁵ Myrdal seems sometimes to have had difficulty in providing material on time, page proofs went missing for a few days on at least one occasion, and above all, the essay itself kept on getting longer than either its author or editor had expected. Exasperating as these issues must have been for Hayek, however, we doubt that they had a significant effect on his relations with Myrdal.

Some of the essay's substantive content, however, which Hayek certainly read carefully during the page-proofing stage of its publication, was more calculated to cause him intellectual and, in at least one instance, personal, discomfort.¹⁶ Two passages in particular stand out: one in chapter 2 – one of the three opening chapters added by Myrdal after the publication of its original Swedish version – is quite brief, while the other is much longer and systematic, amounting to the whole of its concluding Chapter 9.

¹⁵ On Mackenroth's role here, see Appendix A.

¹⁶ Evidence of the care with which Hayek read Myrdal's proofs is to be found in a letter from him dated December 13th, 1932, in which he proposes a small change to a passage in Myrdal's text dealing with the extent of Pigou's knowledge and understanding of Wicksell's work.

The first of these seems to us to have been particularly likely to get under Hayek's skin. It suggested that his monetary theory (surely as set out in *Prices and Production*,) shared a fundamental weakness with that of none other than Keynes (in his *Treatise on Money*).¹⁷ Specifically, Myrdal argued that

A criticism of Keynes and Hayek would have to begin by pointing out that in their theoretical systems there is no place for the uncertainty factor and for anticipations. This is quite obvious in the work of Keynes: In his theoretical part Keynes works with the notion of "profits" which he defines . . . simply as "windfalls," that is, as completely unexpected income surpluses.

In this system of ideas there is obviously no place for risk and anticipations, for capital gains and losses, nor for a useful expression for anticipated increases in the value of real capital. This is, I believe, the reason why Keynes' concepts of "investment" and "saving" are so obscure and contradictory and why his whole equilibrium system is so unsatisfactory ...

Hayek's works ... have the merit of a more intensive analysis of the roundabout process of production and consequently of the questions of profitability. But . . . I cannot see how he would be able to work the risk and uncertainty factor into his system . . . Hayek directs his thorough analysis – in accordance with the Austrian tradition – towards an abstract case where ... anticipations are excluded by assumptions which are fundamental to the whole analysis,

It is, therefore, essentially the same principal objection which I have to bring forward against both Keynes and Hayek, though for very different reasons: their theoretical stating of the problem does not take proper account of the element of change and the anticipations of future changes which are bound up with risk. The objection is quite decisive since ... the whole monetary problem depends on the factor of anticipations. (Myrdal 1939, pp. 32-33, as translated from 1933, pp. 384-386).

There is no need here for us to pass judgement on the substance of this attack. Hayek's own immediate response to it, in a lecture on "Price Expectations,

¹⁷ Myrdal explicitly refers to Hayek's (1931a) *Prices and Production* in his essay in *Beiträge* when discussing the Austrian extension of Wicksell's monetary theory.

Monetary Disturbances and Malinvestment” delivered in Copenhagen in December 1933, can serve this purpose.¹⁸

I cannot quite agree with Professor Myrdal when he alleges that in my theory there is no room for . . . expectations . . . I am on the other hand in complete agreement with him when he stresses the great importance of this element in the further development of the theory of industrial fluctuations. (Hayek 1939).

But, it was not so much the substance as the style of Myrdal’s assault that was calculated to upset Hayek. In particular, it must have been very hard for him to accept with good grace being coupled with Keynes. Their then recent exchange in *Economica* (the house journal of his new department at LSE) (Hayek 1931b, 1932a, Keynes 1931) in which Keynes had responded to a sharply critical but nevertheless substantive review of the *Treatise on Money*, not with any reasoned counterarguments but with a barrage of gratuitously vicious ridicule aimed at *Prices and Production*, would surely have been fresh in Hayek’s memory.¹⁹

And Hayek might also have recalled that, upon receiving copies of his abovementioned review and a proof of *Prices and Production* in late 1931, Myrdal had responded by expressing agreement with the former and promising to read the latter. Evidently Myrdal had kept this latter promise at some time in the interim, but, rather than write privately to Hayek with critical comments, as Hayek had written to Myrdal in late 1932 after receiving the German translation of *The Political Element in the Development of Economic Theory* (Myrdal 1930), he had held them back to launch an ambush in a monograph that Hayek himself had invited him to write and already promised to publish.

There is more than enough here, then, to justify a disappointed response on Hayek’s part to Myrdal’s completed text. And perhaps he then reacted to its final chapter, Chapter 9, as he would to salt being rubbed into an open wound. That

¹⁸ We thank Harald Hagemann and Hansjoerg Klausinger for drawing our attention to this lecture.

¹⁹ Hayek’s discomfort at this exchange was surely enhanced by the fact that in 1933, he was still a young newcomer to English academic circles, whereas the considerably older Keynes had a strong claim to be the world’s most famous economist. Robert Skidelsky (1992, pp. 456 ff.) discusses this episode, which also involved another highly critical, albeit substantive review, this time by Keynes’ colleague Piero Sraffa of *Prices and Production* in the *Economic Journal*, and a response by Hayek. See Sraffa (1932) and Hayek (1932b).

chapter's wide-ranging critique of the "classical" approach to economic theory and policy of which Hayek was at that time emerging as a leading exponent, is permeated with Myrdal's distrust of the rationality assumption as a basis for economic theory, and scepticism about the claims of that theory to be value-free. His policy activism is also on full display, alongside his low opinion of those contemporary approaches to the business cycle that he believed to be "a rationalization of economic liberalism, which erects its own fatalistic negative attitude towards planned economic control into a doctrine".

Here Myrdal quoted with approval a judgement which he attributed to Cassel:

Perhaps the whole attitude was ultimately based on a primitive puritanism; happiness is somehow evil, something immoral, which should be accompanied by purifying misery now and then in order that those who have experienced it may be redeemed; and so it is only proper, right and natural that after the upswing, with all its sad mistakes, bad times should follow (Myrdal 1939, p. 202)

Myrdal did not cite any specific Austrian sources in Chapter 9, but his target was surely too obvious for Hayek, or any other up-to-date reader, to have missed.

Even so, these arguments of Myrdal's could not have come as a total surprise to Hayek, who had already known him for three years. And in late 1932, while preparing to deal with Myrdal's proofs, he also had read large parts of the new German translation of *The Political Element in the Development of Economic Theory*, in which Myrdal's critique of orthodox economics was already fully developed.²⁰

Hayek disagreed with much of what he found there, to be sure, but he communicated that disagreement to Myrdal in a letter of December 4th, with courtesy, ending a brief but substantive critique as follows:

²⁰ Myrdal was a determined exponent of the age-old ideas that economics could not be "value free", and that classical economics in particular was inherently biased in favour of the market economy, not least in matters of practical policy. Mark Blaug (1985, p. 706 ff.) gives a succinct critique of this doctrine, and its place in the history of economic thought that explicitly refers to Myrdal as one of its exponents. In his letter to Myrdal which we quote in our text, Hayek refers him in particular to the contrary arguments of Ludwig von Mises, and his colleague Lionel Robbins' recently published *Essay on the Nature and Significance of Economic Science* (Robbins 1932).

I hope you will allow me to write to you in more detail as soon as I have finished reading your book. It reads very well indeed. Mackenroth . . . has done an excellent job. I think I can predict great success in Germany. (Hayek to Myrdal November 4th, 1932, in German)

There is no sign here of any personal irritation with Myrdal on Hayek's part, though he might well have been disappointed a little later with Myrdal's unconstructive response to his invitation to engage in a serious discussion of their differences.

I read with great interest your kind remarks on my book. I should like to discuss those problems more in detail with you. The reason why I wrote the book was that, although the principal (sic) of the "Wertfrei Nationaleconomie" is more than a hundred years old and expounded in every textbook, so contain most economic theories normative ideologists, and I therefore thought an immanent analyses (sic) of the classical basis not to be unnecessary. (Myrdal to Hayek November 30th, 1932).

It is, in short, understandable that, a few months later, Hayek might have found it harder to accept Myrdal's sometimes scornful antipathy to Liberal economic orthodoxy with equanimity, when it was combined with a personally discourteous and unheralded coupling of himself with Keynes as an object of criticism.

To sum up, then, there are adequate reasons for accepting at face value Hayek's 1974 assurance to O'Driscoll that, when he received Myrdal's essay, he "did not like it at all and published it only with reluctance." Hayek's 1974 letter to O'Driscoll also asked him to treat this opinion with discretion, as the reader will recall. Even after four decades he sought to maintain civility when discussing Myrdal's work. It is not surprising, then, that there seems to have been no private letter to Myrdal in 1933 rebutting, let alone complaining about, the contents of his essay; just polite thanks on April 30th to Myrdal for his contribution, and an expression of hope that he was happy with the outcome. On May 8th Myrdal replied that he was, though he grumbled that his name had been misspelled on the title page. Thereafter, correspondence between the two dwindled away, apparently ending in 1935.

Nevertheless, Hayek's Introduction to the *Beiträge* itself does perhaps show *some* signs of disappointment with Myrdal. The section devoted to his essay is prefaced by three brief paragraphs in which Hayek regrets that "unforeseen and unavoidable interruptions prevented Professor Lindahl from completing his contribution" to the volume, before describing Myrdal's place in it as follows:

The assistance of another collaborator ...helped fill the gap that arose in this volume. Professor Gunnar Myrdal, whose contribution had been planned from the outset, kindly agreed to take on part of the material originally intended by Professor Lindahl. In doing so he not only reported on Lindahl's ideas but also included an overview of the development of monetary-theoretical ideas in Sweden in his contribution.

Professor Myrdal is also no stranger to German readers. His book *The Political Element in the Development of Economic Theory*, first published in Swedish and recently translated into German, quickly made him well known.

The ideas presented in his contribution were first elaborated by Professor Myrdal in a number of works published in Swedish, particularly his much discussed book *Prisbildningsproblemet och föränderligheten* . . .and various articles. (Hayek 1933, pp. VII-VII).

Not only is the account of Myrdal's involvement in the *Sammelband* given here different to the one that Hayek would give O'Driscoll forty years later, but his suggestions that a substantial part of Myrdal's paper is devoted to expounding Lindahl's ideas, and that it is a reworking of ideas first presented in that earlier book, are at least disputable. And the phrase "overview of the development of monetary ideas in Sweden" is faint praise indeed for the highly original "immanent critique of Wicksell" that subsequent commentators have unanimously agreed forms the intellectual backbone of Myrdal's essay. In 1974 Hayek would express surprise that Myrdal's had become by far the best-known contribution to his *Beiträge*. This outcome was certainly not promoted by his lukewarm 1933 editorial endorsement.

IV. After 1933

Personal interaction between Hayek and Myrdal seems to have come to an end soon after the publication of the *Beiträge*, but our story would not be quite complete without a brief, albeit selective, discussion of subsequent developments.²¹ This is because Myrdal's essay quickly attracted the attention of a number of Hayek's younger colleagues at the London School of Economics. In 1933-34 Hayek and Lionel Robbins were earning fame well beyond the School's walls for their economic-theory-based opposition to the public expenditure programs being proposed by Keynes and others to deal with the unemployment created by Great Depression, and those younger LSE economists who disagreed with them needed a theoretical framework to support their dissent. They found one in Myrdal's analysis of the instability of market economies, and the need for major and continuous government intervention to keep them functioning.

Thus, well before 1936, when the appearance of Keynes' *General Theory* completed the process, Myrdal's essay began to undermine Hayek's intellectual authority within his own department. Some of the younger LSE economists, for example John Hicks and Nicholas Kaldor, could read it in German for themselves, and Hicks published an enthusiastic review of it in the November 1934 issue of *Economica* (Hicks 1934). In the same year, Brinley Thomas, a recent graduate (Ph.D., in 1931) returned to the School from an extended visit to Stockholm, transformed into a persuasive apostle of Swedish macroeconomics in general and Myrdal's version of it in particular. Thomas would deliver a short series of lectures on these topics to a small but extremely attentive audience of his young colleagues and graduate students in the summer of 1935, while his book *Monetary Policy and Crises: A Study of the Swedish Experience* would appear in 1936.²²

Accounts of how Hayek reacted to the rising influence of Myrdal's ideas at LSE differ dramatically. At one extreme, Nadim Shehadi (1991) suggests that "The reaction of Hayek and Robbins to the behaviour of their juniors is interesting. There was a kind of censorship of their ideas . . . Myrdal was invited to give a talk and was prevented from coming". At the other, Benjamin Higgins, a student at the

²¹Earlier accounts of these developments upon which we have drawn below include, Robbins (1971), Shackle (1967), Higgins (see Patinkin and Leith (1974, p. 74), Howson (2011), Caldwell and Klausinger (2022), Thomas (1987) and Shehadi (1991).

²² Among the commentaries cited in fn. 18, Thomas (1987) gives the most vivid account of the inter-connectedness of theoretical and policy issues in the LSE debates of the early 1930s.

School in 1933-35 claims that “while we regarded Keynes as dangerous nonsense, for some reason the Stockholm School was perfectly respectable in London. Myrdal, Ohlin and Lindahl were all there from time to time”. (Patinkin and Leith 1977, p. 74).

Each of these commentators overstates his case. Shehadi’s story about Myrdal’s prevented visit originated in an interview with Brinley Thomas, who in fact recalled that, in 1934, Robbins (NB not Hayek) had dismissed his suggestion that Myrdal be invited to the LSE to give “two or three special lectures” in the following terms: “ ‘Brinley, you’ve been intellectually wine and dined in Stockholm and you’re a bit under the influence. I quite understand. But never mind, it’ll pass’ ”. (Thomas 1987). But even this cannot be the whole story: as we have already noted, because Susan Howson (2011, p. 190), citing a letter from Robbins to Kaldor, records that Myrdal was in fact invited to give a “couple of lectures at the School” in 1936.²³

Furthermore, none of this directly involves Hayek. The possibility that his dislike of Myrdal had something to do with the fact that the latter never actually visited the School in the 1930s – Cassel, Heckscher and Lindahl, all gave public lectures according to Caldwell and Klausinger (2022, p. 368) – cannot of course be ruled out, but there is no evidence that he or anyone else ever attempted to exclude Myrdal’s ideas (or anybody else’s) from discourse at the LSE. On the contrary, *Economica* did publish Hicks’ review of Myrdal’s essay in 1934, Thomas did give his lectures on Myrdal in 1935, and it was Hayek himself who invited Robert Bryce, then a student at Cambridge, to devote no fewer than four sessions of his own seminar to expounding Keynes’ still unpublished ideas, at more or less the same time.²⁴

All in all, even though we find Caldwell and Klausinger’s summing up of these matters entirely plausible - “Robbins appears to have been more proactive than

²³ These lectures did not take place as far as we have been able to ascertain. Indeed, despite Higgins claims, Myrdal never seems to have visited LSE in the 1930s. The abovementioned information on the source of Shehadi’s story comes from Caldwell and Klausinger (2022, p.368, fn. 6.)

²⁴ Bryce would soon move to Harvard, taking Keynes’s ideas with him. And extremely relevant to this paper, he would also be, along with Wolfgang Stolper, the English translator of *Monetary Equilibrium*. He gives an account of this episode in Patinkin and Leith (1977) pp.75-76.

Hayek in trying to rein in the younger people” (p. 388), we are also attracted to Susan Howson’s verdict that, in any event, alleged attempts on both their parts to make life uncomfortable for those of their colleagues who disagreed with them have probably been over-emphasised.²⁵

V. The Amended Story

Nothing in the new evidence we have presented and analysed in this paper changes accepted opinions about how the appearance of Myrdal’s essay under Hayek’s editorship affected the latter’s own progress as the 1930s unfolded. That essay did indeed present an alternative framework for monetary theory and policy analysis to his own, and one that a significant number of his own colleagues, let alone economists more generally, found attractive. If it was Keynes whose work ultimately and comprehensively drove Hayek’s macroeconomics out of the subject’s mainstream after 1936, it was nevertheless Myrdal who prepared the ground for this expulsion. This fact alone is more than enough to explain Hayek’s subsequent and longstanding ambivalence towards him.

What we have shown, however, is that the generally accepted story - that this ambivalence was there from the moment that Hayek first became acquainted with Myrdal’s views - is not true. When Hayek accepted Lindahl’s suggestion that he contribute to his proposed *Beiträge*, Myrdal had already been known to him for at least two years, and Hayek had already unsuccessfully invited him to contribute (alongside Lindahl) to that collection. Furthermore, Hayek and Myrdal were evidently on good terms in those earlier years. Recall, for example, that it was Myrdal who suggested that Hayek include papers by Davidson and Wicksell himself in the *Beiträge* and Myrdal who took the trouble to act as an intermediary in this partially successful scheme.²⁶

²⁵Howson (2011) confirms that many younger members of the department became increasingly unhappy there as the 1930s progressed, not least because promotions or even permanent appointments seemed unduly slow in coming, but she reminds her readers of the role possibly played here by the strong antipathy of the LSE’s Director, Sir William Beveridge towards economic theorists of any school of thought. See, e.g. Howson, (2011, pp. 282 ff).

²⁶ And it is also worth noting that, while involved with this matter, Myrdal also obtained for Hayek, at his request, a photograph of Knut Wicksell from his son Sven. It was not used in *Beiträge*, however.

Relations between them did however start to cool after Hayek read Myrdal's text in 1933. On this point, our story makes contact again with the accepted one. But given what had gone before, we find it hard to attribute this change to the substance of the macroeconomic vision that Myrdal presented there. Hayek must have known already what this was going to look like. Rather, we conjecture, it was the fact that Myrdal's essay contained a specific but unheralded criticism of a key feature of Hayek's own recent work, much amplified by the scornful tone with which Myrdal dismissed his overall approach to economic analysis, that surprised and upset him. Nothing in their preceding correspondence foreshadowed the style of Myrdal's attack.

This conclusion prompts a further question, of course: why did Myrdal treat Hayek this way in his own volume? Did he consciously see a chance to promote his own ideas at his editor's expense and opportunistically seize it? Or did he simply not think about the possible personal impact on Hayek of what he was writing? There are many possibilities here, but to explore them would take us further away from the written evidence on which this paper has concentrated than we are inclined to venture. We are content to leave further speculation to others.

Appendix A. A Note on Gerhard Mackenroth

In the *New Palgrave Dictionary of Economics*, Otto Steiger's authoritative entry on *ex ante* and *ex post* (Steiger 1987) begins as follows:

The concepts of *ex ante* and *ex post* are the most popular terminological innovations developed by the famous so-called Stockholm School in the 1930s. The terminology was introduced into macroeconomic theory, especially with regard to the savings-investment relations by Gunnar Myrdal (1933, 1939) and clarified and incorporated into sequence or period analysis by Erik Lindahl The popularization of the method of *ex ante* and *ex post* is due to Ohlin's seminal articles on the Stockholm School (1937) which made it 'generally accepted over the whole world with a rapidity unusual to economics' (Palander 1941, p. 34).

Steiger does not mention the possible role in the development of these concepts played by Gerhard Mackenroth (1903-1955), but in later years others (e.g. Siven 2006) would show that although the basic concepts themselves, expressed in different words, can be found in Lindahl's and Myrdal's work of the 1920s, it was actually Mackenroth who introduced the invaluable *ex ante* – *ex post* terminology into Stockholm School writings. He did so in his German translation of Myrdal's Swedish *Ekonomisk Tidskrift* article for Hayek's *Beiträge*.

There is rather more to this story, however, as can be gleaned from a letter written by Mackenroth to Lindahl on October 17th, 1951, replying to a query from Lindahl about the origins of *ex ante* and *ex post*. This letter, written in German, and mailed shortly after Mackenroth had returned from a visit to Sweden – Uppsala in particular – with some of his students. We quote it *in extenso*:

Dear Lindahl,

After returning from our trip to Sweden, I wanted to express my heartfelt thanks once again on behalf of all the students for our reception in Uppsala. For me, it was a special experience to immerse myself once again in the familiar academic and scientific world of Sweden after the war. Our time together in Uppsala and the conversations we had there hold a very special place in my memories of the trip.

Regarding your question about the *ex ante* and *ex post* terminology, I am sending you today a separate printed copy of my theoretical work from that time, which you no longer have among your books. The idea is extensively discussed on page 134, and the terminology can also be found there. For example, on page 135 at the bottom, page 141 in the middle, and page 142 in the middle. I only mention the places that caught my eye during a quick review.

The work was submitted by me in the spring of 1931 to the Faculty of Law and Political Science in Halle as a habilitation thesis. It was under review there for a year, and an expert opinion from Schumpeter was also requested for it. On April 10th, 1932, I was habilitated based on this work. It then went to print and was published with the publication year 1933.

Therefore, it is not in doubt that the terminology originated from me and was also incorporated into Myrdal's translation. It was coined - I remember this clearly - in connection with a discussion of the difference between the concepts of *ex nunc* and *ex tunc* in Roman law.

With warm regards to your esteemed wife and looking forward to seeing you again soon in Kiel,

Yours, G. Mackenroth

To sum up, then: contrary to Steiger (1987) Myrdal did not originate the *ex ante* – *ex post* vocabulary, nor did it even appear for the first time in his essay in the Hayek *Sammelband*. It had been invented and used by his translator, Mackenroth in his habilitation thesis well before he began translating Myrdal's article. Mackenroth's thesis was finished in 1931, accepted in April 1932, and published in Berlin as Mackenroth (1933a).

Given this contribution, Mackenroth's interaction with Swedish economists is worth further brief discussion. His early academic training in Leipzig, Berlin and Halle was in law, and it is in this discipline that he most likely first encountered the concept of *ex ante* and *ex post*.²⁷ Between 1929-1932 he was the beneficiary of a

²⁷ Claes-Henric Siven has suggested this to us. A further, albeit shallow, investigation of German legal thought, under the guidance of Hans-Michael Trautwein, gives credence to this view. It is also confirmed by the reference to Roman Law in Mackenroth's letter to Lindahl, quoted in the text.

Rockefeller travelling fellowship and spent a substantial part of his time in Stockholm, where he learned Swedish and first met Myrdal, with whom he formed a lasting friendship. Myrdal's archive contains 129 items of correspondence between them, spanning the years 1929-1954, though the frequency of exchanges drops markedly after 1934, and again after 1936.

In addition to the two Myrdal works discussed in this paper, his German translation of Eli Heckscher's monumental study of mercantilism (Heckscher 1931) was published in 1931, and the published version of his dissertation (Mackenroth 1932) explicitly drew the reader's attention to Lindahl's work.²⁸ Thus, he made a notable contribution to the international visibility of Swedish economics in the early 1930s. Finally, on his own account, he published a substantial and quite technical paper on capital theory in the *Journal of Political Economy* in December 1930. (Mackenroth 1930).

Mackenroth's story also has a less attractive political side, however. He joined the Nazi Party on May 1st, 1933, signed the German academics' loyalty oath to Hitler in November of that year, and joined the SA in November 1934. Jacob Viner, writing to Myrdal in the spring of 1934, commented as follows

I am anxious to know how far Mackenroth has gone in his Nazism. I felt he was romantic, with capacity for but temperamental distaste for a rationalistic approach to social problems and that on the fundamental question of what ultimate values had appeal for him I saw no reason why what seemed important to Spann, or Hitler, should not seem important to him.

Myrdal replied in October:

He is rather unhappy, I think. He is an honest man and takes things seriously, is not one of those opportunistic boys who go on all right (sic) with the developmen (sic) in the "dritte reich".

A Swedish translation of Mackenroth's book on the political views of German youth, entitled *Tysklands ungdom i revolt* (*The youth of Germany in revolt*) appeared in 1933. In his introduction to this translation, Mackenroth (1933b) explains that the manuscript, written originally in German, started out from a

²⁸ Mackenroth also translated a summary of Myrdal's *Political Element* published as Myrdal (1933). For a list of Mackenroth's translations, see Boettcher (1964, p. 534).

lecture for Swedish students given in April 1932 and that Alva and Gunnar Myrdal had encouraged him to publish the lecture in Swedish.²⁹

If this book has any merits, these must be due to first of all my Swedish friends Alva and Gunnar Myrdal, who have given me the idea to prepare this book, although they, as I well know, do not share all my views on the problems treated here.

Myrdal actually wrote a foreword for this book, but it was not included in the published version. Its exclusion, as Eliaeson (2008) points out, happened at the last minute, and at Mackenroth's request. He found it too critical of then current German political attitudes. It was, however, later reproduced in Appelqvist and Andersson (1998, pp. 380-383), a volume of "representative texts" by Myrdal published to celebrate his 100th birthday. In this brief essay, written on January 31st, 1933, the day after Hitler's *Machtübernahme*, (cf. Myrdal 1998, p. 382) Myrdal agreed with Mackenroth's harsh critique of the German Social Democratic party:

It has followed an unimaginative, senile, opportunistic line, and a very large part of the responsibility for what has happened falls on the Social Democrats in Germany. This criticism is very useful reading even in Sweden.

But, as already noted, he was sharply critical of Mackenroth's overall message, arguing that the nationalistic sentiment then prevalent in Germany was incompatible with socialism and would be exploited by reactionary and conservative forces:

Mackenroth does not seem to me to have sufficiently considered the culturally reactionary and therefore necessarily anti-socialist element in nationalism. This is partly because he has presented his argument from the perspective of his own environment: the proletarianized, intellectual middle-class strata.

²⁹ Sven Stolpe (1905-1996) was the translator of Mackenroth's German text. He became a leading conservative voice in Swedish cultural life.

The strains in the Myrdal-Mackenroth relationship already evident here, were further exacerbated by the very strong criticism of the Nazi takeover of Kiel University expressed by Myrdal and his wife in a report to the Rockefeller foundation in July 1933, and by Myrdal's subsequent active support of German scholars fleeing to Sweden.

Mackenroth, who, like Myrdal, would turn away from economics and towards sociology, went on to occupy chairs at the University of Kiel and at the short-lived (1941-44) *Reichsuniversität Strassburg*. After the war and his ultimate denazification in 1948, he returned to Kiel as professor of sociology, a position he held until his death in 1955. Myrdal's correspondence with him resumed after the war, and he eventually contributed a chapter to a collection of essays in Mackenroth's memory, Myrdal (1964). This chapter might perhaps be viewed as a final tribute to his translator of the early 1930s, although it does not explicitly mention their joint work in monetary theory. Instead, Myrdal (1964, p. 507) stressed that "one of our shared interests in life was the critique of the preconceptions of economic theory".

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