Twitter Thread by George Selgin



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Thread: This brief @PilkingtonPhil note on Gunnar Myrdal's _Monetary Equilibrium_ is indeed very good. That work (which helped earn Myrdal the Nobel he shared w/ Hayek) Some follow-up remarks here.

> Gunnar Myrdal's Prescient Criticisms Of Keynes' General Theory
> by Philip Pilkingtonhttps://t.co/O8zNIygxHd
>
> Myrdal's correct assessment of Keynes was overwhelmed by the incorrect ISLM formalism interpretation.
> pic.twitter.com/5qPOSli2Zu
>
> — John Lounsbury (@jlounsbury59) December 17, 2020

As Phil notes, Myrdal was a member of the Stockholm School, whose contributions to monetary theory built upon the work of Knut Wicksell, the school's founder. In By 1931, when _Monetary Equilibrium_ appeared, a (polite) rift had separated the school in two.

The rift began with a debate between Wicksell and David Davidson concerning the sort of price stability implied by a policy of keeping interest rates at their "natural" levels. Wicksell of course claimed that this would result in stable _output_ prices.

Davidson instead argued for a "productivity norm," with the stable factor prices, which would have the output price index move inversely with factor productivity.

Eli Heckscher and Gustav Cassel were among the more well-known Swedes who sided with Wicksell. Myrdal, in contrast, was , as did many those who sided with Davidson. (Hayek, by the way, also shared Davidson's opinion, as did many non-Swedes. See https://t.co/dlJQFqLbIL.)

Although many (myself among them) believe that the Davidson gang had the better arguments, the Riksbank ultimately went the (output) price-level stability route. David Laidler has an excellent paper on this: https://t.co/Th9MV1U3De.)See also https://t.co/LU6DUFi1gd)

One of Myrdal's particular contributions to the debate was his claim that stabilizing factor prices made more sense, because factor prices tend to be stickier than final goods prices. The less the former have to adjust, the fewer episodes of monetary disequilibrium.

As anyone conversant with the modern macro. literature knows, Davidson-Wicksell debate is still raging! https://t.co/uittss25vN

Phil addresses some important differences between Myrdal's analysis in _Monetary Equilibrium_ and that of Keynes's _General Theory_. One he doesn't point out is that Keynes took the Wicksellian view. But it's clear that Keynes's was torn on the issue.

As I've noted in comparing Keynes's position on this matter with Hayek's (Hayek's of the 1930s, that is), Keynes's came within an ace of embracing the Davidson "productivity norm" view: https://t.co/zTkGa1bwMW

Finally--and importantly--the productivity norm/factor price stability ideal amounts in practice to a form of nominal income targeting, and as such is akin to the NGDP targeting recommended by @MoneyIllusion, @DavidBeckworth, @MaMoMVPY, and others.

So I say we award ol' Gunnar an honorary NGDP targeting mug. How about it, @DavidBeckworth?