

## TRANSITION ECONOMICS IN GUNNAR MYRDAL'S PERSPECTIVE

A Review of James Angresano, **The Political Economy of Gunnar Myrdal, An Institutional Basis for the Transformation Problem**. Cheltenham – Brookfield, Vt.: Edward Elgar, 1997.

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Angresano's purpose in the book under review is to examine the relevance of Gunnar Myrdal's intellectual legacy to the pressing and unsolved problems of "transition" in the former Soviet Union and the Eastern European countries. Myrdal won the 1974 Nobel prize in economics even though he was not a typical mainstream economist.

Gunnar Myrdal was born in 1898 in the village of Solvarbo, in the Central Swedish province of Dalarna. Even today this province reflects old Sweden in miniature; farms, woods and lakes still predominate. In summer Swedes still flock there to savor the pleasures of village life as it has been lived in Dalarna for centuries. The rural folk remain freeholders of their land whose history knew little of either nobility or serfdom.

Myrdal's father, Carl Adolf Pettersson (1876–1934) was himself the owner of a landed estate, a successful, self-made man of conservative political leanings. His child was christened Karl Gunnar. The childhood memoirs of Gunnar's son, Jan Myrdal (1991), recall how Karl Gunnar Pettersson became Gunnar Myrdal. After graduation from the gymnasium, as a student of jurisprudence, he called himself Gunnar Myrdahl. Eventually, the letter h also disappeared from the last name and the young student became Gunnar Myrdal. At the University of Stockholm, he studied with Knut Wicksell, David Davidson, Eli F. Heckscher and Gustav Cassel. He was a brash young man and Gustav Cassel once warned him by saying: "Gunnar you should be more respectful to your elders, because it is we who will determine your promotion." "Yes," young Myrdal replied, "but it is we who will write your obituaries." Nevertheless, he and Cassel became very close and he eventually succeeded to the latter's chair in political economy at Stockholm University. When Cassel died in 1945, Myrdal wrote

his obituary which was eventually translated in 1963, into English. In 1924, Gunnar married Alva Reimer, who became a leading feminist as well as a diplomat and cabinet member and, in 1982, winner of the Nobel Peace Prize. The Myrdals had three children: Jan, an essayist and political scientist, Sissela Ann, an authority on ethics and the wife of Derek C. Bok, former president of Harvard University, and Kaj Forster, a sociologist, who resides in Göttingen, West Germany. Jan, their oldest son, caused Gunnar much grief by publishing childhood memories of his parents that portrayed them as popularity seekers, opportunists, and bleeding heart liberals. Jan Myrdal did not attend either of their funerals. But whatever Jan Myrdal wrote about his parents, Gunnar and Alva got along splendidly and were a happy couple indeed.

Myrdal held the Lars Hierta professorship in Economics and Finance at the University of Stockholm from 1934 to 1950. In 1960, he became Professor of International Economy at the University of Stockholm, a post he held until his retirement in 1967. Myrdal was a prolific writer and his bibliography, published in 1976, listed 1051 citations. His best-known books are *An American Dilemma* (1944), *Asian Drama*, 3 volumes (1968), *The Challenge of World Poverty. A World Anti-Poverty Program in Outline* (1970), *Against the Stream: Critical Essays on Economics* (1973), *The Political Element in the Development of Economic Theory* (1953; originally published in Swedish in 1930) and *The Monetary Equilibrium* (1939; originally published in Swedish in 1931).

The post-Soviet governments of Eastern Europe and Russia turned to Washington, London, Bonn and Paris for advice on transforming their societal structures. Their subsequent policies were heavily influenced by advice from World Bank and International Monetary Fund specialists who were all mathematically trained mainstream economists. These advisers were only partially successful: Poland has taken off into sustained growth, while Russia remains in a state of economic retrogression. Angresano believes that the mainstream economists could have drawn on Gunnar Myrdal's intellectual legacy to provide policy guidance for a more effective transformation.

In the first chapter, Angresano describes the major "transformation" problems in Russia and Eastern Europe after 1989. The reforms implemented to address the "societal changes" (viii) led to declining living standards and economic retrogression. The author blames the neoclassical orthodoxy of the Western advisers for their "arrogant misoneism of shock therapy" which totally disregarded the "soft factors" (28).

Angresano examines Myrdal's intellectual legacy by reviewing three distinct Myrdals. Myrdal I (chapter 2) relates to "high theory" years 1915 to 1933. These include Myrdal's 1927 doctoral dissertation, his *The Political Element in the Development of Economic Theory* (1930) and his *Monetary Equilibrium* (1931). In these works, Myrdal added three novel concepts to the economist's tool box. The first was the postulate of the *explicit value premise* in economic analysis. The second was the *ex ante – ex post* concepts in macroeconomic theory. The third was his rejection of "illegitimate isolation" of strictly economic variables from the rest of social phenomena.

Chapter 3: Myrdal II (1929–1938), details Myrdal's early partiality to pure economic theory and his later move towards social issues as world-wide depression left

its mark. As a man of Enlightenment, Myrdal wanted to make his native Sweden a better place to live. Once the Social Democrats were swept into power in 1932, he left behind the “learned helplessness” of economic theory and became involved in “social engineering” efforts. In 1934, Gunnar and his wife Alva published the influential study *The Crisis in the Population Question* (1934), where they recommended an improvement in the quality of life, including housing, family relations, working conditions, subsidies to families, prophylactic social policy, and shifting the responsibility for raising children from the family to the state. While doing this study, Myrdal also developed his interdisciplinary methodology.

In Chapter 4, called Myrdal III (1938–1987), Angresano sketches Myrdal’s emergence as a unique type of institutionalist. This process took shape chiefly in the United States where Myrdal undertook a study of discrimination against black Americans. The resulting book, *An American Dilemma*, was published in 1944. In it, writes Angresano, Myrdal was able to integrate economics, sociology and social psychology into a work which became a classic research contribution to social science research.

Angresano describes the 1942–1947 period as “barren” as far as scholarly writings were concerned, although Myrdal was active in economic policy-making. Yet the author fails to mention Myrdal’s book *Warnung vor Friedensoptimismus*, published in Switzerland in 1945. In it, Myrdal anticipates US postwar economic difficulties caused by demobilization and the shift from war to peacetime economics, about whose negative repercussions on the Swedish economy he was apprehensive. In fact, during the period between 1945 and 1947, when he served as Sweden’s Minister of Commerce, Myrdal signed a five-year trade agreement with the Soviet Union seeking to protect Sweden from possible deflationary effects originating in the United States. The agreement did not turn out as Myrdal expected and he had to resign.

In April, 1947, UN Secretary General Trygve Lie asked Myrdal to take over the post of Executive Secretary of the Economic Commission for Europe, in which he remained until 1957. While in Geneva, Myrdal turned his attention to the economic development problems he anticipated in his 1955 lectures in Egypt, arguing that mainstream economic theory “had little to offer to less-developed countries” (75). In 1957, the Twentieth Century Fund provided Myrdal with \$140,000 for a 2½-year study of economic development. It took him ten years to complete it and it was published in 1968 as *Asian Drama: An Inquiry into the Poverty of Nations*. The value premises of *Asian Drama* were the rationalistic ideals of the Enlightenment. In Myrdal’s view, the on-going population explosion prevented reliance on laissez-faire, hence he urged that modernization in less-developed countries had to be achieved by planning from above. While not an advocate of Soviet-style direct controls or institutions, Myrdal did subscribe to the idea of reform via changing and improving social institutions. He was a typical interventionist, an advocate of “social engineering” à la Sweden. Yet after ten years of studying the process of change in Southeast Asia, he arrived at the conclusion that political democracy was not a requirement for modernization. Indeed, Myrdal wrote, “modernization ... can be attained by an authoritarian regime” (1968, 1:65). Attitudinal and institutional changes must precede

and not follow economic changes. In any event, according to Angresano, in 1974, when Myrdal received the Nobel Prize in Economic Science, he felt that “the present establishment economics is just going to be left on the wayside as irrelevant and uninteresting” (96). Clearly neither Myrdal’s work nor his public utterances endeared him to fellow economists.

Finally, chapter 5 deals with the relevance of Myrdal’s policy recommendations for transformation issues in Russia, China and Eastern Europe. Angresano is particularly impressed with China, arguing that it has “developed in a Myrdalian sense far more rapidly than Russia and more than nearly every CEE nation ...” (199–120) An authoritarian regime can introduce radical reforms effectively, as demonstrated by China’s reforms which contrast with the “learned helplessness” of economic experts in the Central and Eastern European countries. Angresano minimizes the fact that every Chinese factory has a communist cell, where party ideologues have considerable direct or indirect influence. That being the case, the market-driven economic rationality is difficult to implement. Rationality means primarily the relentless quest for improvement of efficiency and the provision of incentives. In a totalitarian society, where party apparatchiks are forever on the factory floor and where denunciations are still the order of the day, Angresano’s totalitarian policy suggestion should be taken with a grain of salt. Surely, China’s political stability provides an excellent milieu for copying the wonders of the Western communications revolution, yet the mainland China continues to rely heavily on the agile Taiwanese entrepreneurs.

Alas, in Russia the former Soviet institutions with new nametags, but staffed with former apparatchiks, are still in place. To appreciate the nature of the process of change in attitudes and institutions, it is instructive to examine the postwar experiences in the occupied zones of West Germany. The 1945 American Joint Chiefs of Staff Directive 1067 ordered 32 “automatic arrest” categories of the former Nazis in the US zone. This program has been highly successful and accounts for Germany’s subsequent democratization. The lessons learned in Germany may well be applicable to present-day Russia, yet Angresano does not recommend similar “de-bolshevization” of Russia as a way to bring about institutional and attitudinal changes. This seems an unresolved policy contradiction in Angresano’s volume. Yet his emphasis on the limitations of pure economic theory as a methodological tool for societal analysis is judicious and relevant as is his argument that mainstream economists are unable to deal effectively with the transitional problems of the formerly communist-type societies is right on the mark (119), and for this emphasis, Angresano’s volume deserves attention.

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