

constitutional amendment to overturn *Pollock* and impose a national tax system based on the “ability-to-pay” rationale. The pain of the Panic of 1907 and the emergence of big business, an easy-to-hit target, helped seal the passage of the Sixteenth Amendment in 1913—the crucial turning point in the fight for a “modern” system of taxation.

Part Three drives home an important nuance of Mehrotra’s study. Establishing the legal foundations of the new fiscal order was only part of the battle for progressive political economists and reformers. The methods of tax collection and the conduct of fiscal governance were equally important. Mehrotra concludes his study by examining the dramatic expansion of the state’s tax-collecting apparatus during the Great War and subsequent, failed, attempts to turn back the clock of progressives’ fiscal reform project. Although the Mellon Plan successfully eroded the graduated tax structure, it endorsed the notion of a scientific administration of tax laws that ultimately ensconced the “ability-to-pay” justification of tax policies.

The lack of a bibliography is disappointing, but the thoughtful footnotes will be appreciated, given frequent references to the many articles, court cases, and books that help tell the story. Those familiar with the cast of characters Mehrotra explores can readily follow along and those encountering them for the first time can easily track down the sources necessary to learn more.

Making the Modern American Fiscal State will most obviously appeal to scholars of the Progressive Era and American fiscal policy, but also holds value for those with a general interest in policy, business, and economic history. Those unfamiliar with early twentieth-century public policy will likely find it challenging, but accessible and rewarding. Mehrotra has produced a coherent, engaging narrative that encourages us to dig deep into the early twentieth-century tax reform movement in order to properly understand the dynamics of present-day debates about flat taxes, 99 percenters, and fiscal cliffs. One could argue that the parallels are superficial, given dramatic differences between then and now. Regardless of what one decides, this book readily facilitates such considerations.

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Örjan Appelqvist, *The Political Economy of Gunnar Myrdal: Transcending Dilemmas Post-2008* (Abingdon: Routledge Taylor & Francis Group, 2014), pp. 168, \$145. ISBN 978-0-415-52714-9.

doi: 10.1017/S1053837216000432

Like Monsieur Jourdain, who wrote prose without being aware of it in the *Le Bourgeois Gentilhomme* by Molière,¹ most of the graduate students, economists, or policy makers apply Gunnar Myrdal’s (1898–1987) political economic theory without being aware of it. In fact, we are all indebted to Myrdal when distinguishing *ex-ante* from *ex-post* phenomena. However, it would be unfair to reduce the 1974 Nobel Laureate contributions to this key methodological tool.² The fascinating book from Örjan Appelqvist

¹Jean Baptiste Poquelin (1622–1673), alias Molière, was a famous French playwright for the king Louis XIV.

²Gunnar Myrdal won the Nobel Prize in Economics in 1974 at the same time as Friedrich Hayek.

gives us the opportunity to measure the depth and broad dimensions of Myrdal's thoughts that went far beyond economic phenomena *per se*. Following the 2008 crisis, Paul Krugman (2011) advised the economists' community to return to the legacy of "our due fathers" if we want to face the "dark age" for macroeconomics. Is Gunnar Myrdal a good candidate in this search of paternity? This is the challenge that this book has to face by convincing the reader to answer in the positive.

When I first began reading this stimulating book from Appelqvist, I was pretty sure I would be able to answer the question: Who was Gunnar Myrdal? After I read the first pages of the book, the question became harder than I had expected because Myrdal appeared through the pages as an academic, a policy maker, and a social thinker or a social scientist. Can someone play those entire roles at the same time? Unfortunately, the reader will be unable to answer the question, even after finishing the 168 pages of the book, as long as he considers Myrdal in the light of these three facets separately. As suggested by Milton Friedman, when there is no answer to a question, it may be because of the question itself. Thus, it could be fruitful to change our mind. Instead of considering the question of *who* Gunnar Myrdal was, it is rather more appropriate to apply Myrdal's own methodology—when facing economics issues—by adopting the "cumulative causation" relationship. By so doing, the reader will quickly understand that Myrdal was, *first*, a *social thinker* or a *social scientist*—with his own assumed social democratic values—who took various positions and responsibilities as a policy maker in Sweden after the two world wars, as an international civil servant at the head of the UN commission for European development, and as an internationally renowned academic. The *social thinker* facet of Myrdal supplanted the other ones, and it had cumulative causation effects when he *did* economics in practice. As a prime requisite, when Myrdal strongly criticized political economy—particularly free trade theory—it was not disconnected from his moral and philosophical values. Maybe it is especially that part of Myrdal's personality that made him so special or so *heterodox* among the economists' community.

Appelqvist's book aims at reassessing Myrdal's thought by raising the following question: To what extent can Myrdal's critical thinking of conventional economic theory be useful in confronting today's challenges inherited from the 2008 great financial crisis? The best way to answer this broad question is to divide Appelqvist's book into four major but interrelated topics: (1) the criticism on conventional methodology in political economy; (2) Myrdal's position on international economic theory; (3) Myrdal's involvement in broad social issues such as ecology and poverty; and (4) Myrdal's unceasing call for supremacy in morality rather than rationality when policy making is concerned. This is the approach that we will adopt in this review.

Like most of the economists of that time, Gunnar Myrdal started studying law before being a graduate student in economics in 1927 under the supervision of Professor Gustav Cassel.³ Following the advice of his wife, Alva, Myrdal moved to economics study because she convinced him that economics would have a greater impact on solving social problems. From the very beginning of his studies, the intellectual interests of Myrdal were linked with practical issues. He believed that scientific knowledge

³Gunnar Myrdal had graduated in law in 1923 at the University of Stockholm before being Doctor in Economics in 1927 under Gustav Cassel's supervision.

reaches its significance only to the extent it can translate into social changes. Faithful with those values, the two Myrdals, Alva and Gunnar, quickly joined the Social Democratic party in Sweden.

One of the major legacies that Myrdal left to economics was his methodological approach to reach scientific truth. Myrdal had always been faithful to his methodological approach, particularly when he was a policy maker—as Minister of Finance in 1940 or as Minister of Commerce in 1945, to name a few positions—in Sweden. Contrary to his PhD supervisor, Professor Cassel, Myrdal paid particular attention to drawing the line between *what is true* and *what should be considered as valuable*. When the two are mixed up, this results in confusions and inaccurate policy solutions. The best way to sum up Myrdal's epistemological position can be expressed in the following way: as there are no answers without questions, there are, thus, no views in economics without point of view. In other words, economic theory or whatever policy measures are always value-laden. A major part of economic knowledge and theory is based on broad concepts (such as competition, markets, welfare, etc.), assuming that is the best way to be neutral. The later “scientific naïve” method that featured the Neoclassical theory is, to Myrdal, a non-neutral approach due to the fact that economics key concepts and assumptions are, in reality, built on (hidden) philosophical ideals. As a consequence, Myrdal supported what he called the “value critical” approach. In short, assuming non-neutrality—or judgment values—content in economic reasoning is the best way to be neutral. An economist and policy maker should adopt a value-critical premise in every economic debate before providing policy answers. As demonstrated by Appelqvist, when considering the sovereign debt crisis in Europe—and the inherited austerity plans—policy makers should have been more critical of the (liberal) values embodied in whatever European treaty and rules existed: the 60% public debt and GDP ratio or the 2% stability price level goal from ECB are just examples of a liberal value premise hidden in presupposed neutral economic rules. The debate following the (false) conclusions on the Carmen Reinhart and Kenneth Rogoff (2008) book is a good example of such economics bias that polluted economic policy.

It is, thus, not surprising that Myrdal did his PhD on the “the variability factor to the study of price formation.” This subject perfectly fits with his epistemological approach to economics phenomena. By underlining the mental expectation process that predetermined price formation, Myrdal demonstrated that there are no fixed laws that governed economic life and that can be deduced from the past. This is the reason why he introduced the famous *ex-ante/ex-post* distinction, so as to split the economic consequences of facts (*ex-post*) from their presupposed effects (*ex-ante*). Despite being in the footsteps of Knut Wicksell's monetary theory, Myrdal, as most of the Stockholm school members, was critical about the existence of a *unique* stable price level. In fact, it is, thus, not evident that a unique price level existed *per se*, and, moreover, it is not self-evident that this corresponds to the equality between the (exogenous) *normal* rate and the *monetary* rate, as Wicksell supported in his 1898 *Interest and Prices* book. This is the message given by Myrdal's *Monetary Equilibrium* in 1931. Broadly speaking, Myrdal reached the conclusion that abstract models are a good starting point for discussion but not the outcome. This methodological criticism in economic reasoning and policy making echoes the actual debate inherited from the 2008 crisis concerning the mainstream (econometric) method, in which economists prevailed.

It clearly misled the entire economics community about the ongoing systemic risk in financial and derivatives markets (as was questioned by Queen Elizabeth II at the LSE in 2008).

Myrdal's research interest in international economic theory is rooted to Swedish concerns during the 1931 crisis following the US financial crisis. During the Great Depression in the thirties, Myrdal and his wife were in New York as research fellows from the Rockefeller Foundation. They saw in practice the economic consequences of the financial crisis and the policy answers adopted by the US government. However, it is particularly following WWII that Myrdal developed his publications on international economic theory.⁴ Quite early, Myrdal strongly criticized the prevailing (liberal) free trade theory of the time, that of Heckscher–Ohlin. According to that theory, an increasing international trade will reduce inequalities between countries by way of an international equalization process of prices, notably wages. Myrdal's critical analysis was based on both methodological and practical dimensions. The first wave of criticism began with his 1957 book *Economic Theory and Under-Developed Regions*. He devoted one specific chapter to criticizing Heckscher–Ohlin theory, in which the frontal attack relies on the *unrealistic* perfect equilibrium process—which he judged to be a liberal ideological order—which provides a false policy answer. The second wave of criticisms relied on the *comparative advantage* key concept that had led, in practice, to increasing welfare gaps instead of mutual advantages. On this topic, Myrdal denounced the unfair behavior of developed countries that he judged as fully responsible for such inequalities. During his lifetime in India, he was in a good position to testify to that failure.⁵

Despite Myrdal's own pessimism—he judged his action as an “almost complete failure” (p. 68)—he exerted his influence, even if mostly in theory, on international trade issues when he had been officially nominated in 1947 as the Executive Secretary of the United Nations Economic Commission for Europe (UNECE). During his ten years' mandate, the quality and depth of the analysis proposed by the UNECE had been largely recognized. However, Myrdal felt disappointed owing to the conservatism and weight of developed countries' lobbying forces that had prevented broader reforms on international trade issues, particularly concerning Latin American countries. During this period, he blamed the lack of political will for that weak result.

After Myrdal's failure to change the free trade agenda, he turned to a more academic career when he moved with his wife to India in 1955. From that time, he changed his research interests by focusing on social sciences at large at the expense of economic analysis. This period was fruitful in terms of publications, particularly two major works in 1968 and in 1972. Those two works both dealt with development issues for emerging countries. The tremendous *Asian Drama* book, published in 1968, aims at providing a thorough panorama of social, cultural, and economic factors impinging

⁴In New York between 1938 and 1942, Myrdal stood for directing a broad research program on the “Negro problem,” which had given birth to his book “*An American Dilemma: The Negro Problem and Modern Democracy*.” He went back to Sweden in 1942 to take part in the discussion on the international economic relations of his country.

⁵In 1955, his wife, Alva, became ambassador of the Swedish Embassy in India and they moved together to New Delhi.

on the efforts of the government to achieve economic and social developments. Myrdal focused on the necessity to emphasize land reforms, population control policy, and education expenditures. This book had been a turning point in Myrdal's thinking. He, then, understood to what extent modernization could take a long time, due to outside forces such as middle-class and rural elites impediments. In fact, he developed the notion of "soft state" so as to feature the present situation in India, and in most of emerging countries at large, where decisions are diluted on their way to implementation when local governments are concerned. The striking point of this impressive work is that it perfectly illustrates Myrdal's methodology. The 1968 book clearly illustrates to what extent the general economic mechanism—i.e., market forces—does not lead to a tendency towards equilibrium but rather to a circular and cumulative causation. Myrdal reached the same conclusion in his 1970 book *Challenges of World Poverty*. In 1972 Myrdal still showed his capacity to understand the (changing) world when he embarked upon a new topic, that of the ecological consequences of the exponential postwar growth. Faithful to his critical analysis against the neoclassical paradigm and methodology, he drew considerable attention when he gave a lecture at the UN first conference on human environment. In this lecture, he demonstrated the inability of economic theory to tackle the ecological issue due to the everlasting markets analysis tool that economists favored, the lack of time dimension considered, and the weakness of the political will to cooperate on these long-term costly issues.

Despite having drawn attention, Myrdal's works on broad social issues attracted criticism for having too many proposals and solutions. One way to answer these criticisms relies on Myrdal's broad will in economic theory. Whatever the topics considered, Myrdal's legacy and ability to transcend the post-2008 dilemmas turn around his call for morality rather than automatic rational behavior. The last chapter of Appelqvist's book enables the reader to answer the first question we raised: Is Myrdal's critical thinking of conventional economic theory useful in confronting today's challenges inherited from the 2008 great financial crisis? Without any doubt, we answer in the positive when considering the four current challenges that economics faces nowadays: the great financial crisis, the debt burden in Europe, the ecological issue, and the epistemo-methodological debate in policy making. In a convincing way, Appelqvist succeeds in applying Myrdal's way of reasoning to the structural issues that European countries face. The two major issues that Europe has to deal with—(Greek) sovereign overindebtedness and the liquidity trap—are fully melded with (liberal) ideological precepts. As a consequence, policy makers and governments remain blind and stuck in their low-growth context. If Myrdal had to solve the "European dilemma," there is no doubt that he would have devoted time and energy to stand back to look at those broad key concepts. The debt can be useful when long-run investments are concerned, and it is not expenditure. For instance, the fiscal policy, such as popularized by Thomas Piketty's successful book (2014), can be useful when it focuses on welfare purposes. Policy goals are not stuck in cement; they should be the subject of a broad democratic discussion so as to favor full employment instead of price stability.

However, by quoting John Kenneth Galbraith's words, according to which Myrdal's ideas "defined the time and the century, including what has gone wrong," Appelqvist ended his book in a positive way by advising the reader to remember all the positive

values of social progress and equity that Myrdal gave us. Conservatism, government's impediments, or rational self-interest in decision making should, thus, be forgotten as long as we believe in social change by human beings.

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Mike Hill and Warren Montag, *The Other Adam Smith* (Palo Alto: Stanford University Press, 2014), pp. 416, \$29.95. ISBN 978-0-804-79294-3.

doi: 10.1017/S1053837216000390

The book opens with reference to Alan Greenspan's admission of his subscription to an "ideology" that free, competitive markets are the unrivalled way to organize economies and closes with a withering discussion of Ludwig von Mises. But this is no crass indictment of Adam Smith as their progenitor. Hill and Montag (hereinafter HM) rather set out to read him as "a conflicted interlocutor" (p. 9). In a commendable way in this reading, HM discuss the whole corpus of Smith's now available writing; indeed, they make a special point of incorporating what they ironically call his "minor texts" (p. 31). They positively acknowledge that Smith's oeuvre is incomplete (given the ordered posthumous executive instruction to destroy mss, and also because it comprises proxy source material in *Lectures on Jurisprudence [LJ]* and *Lectures on Rhetoric and Belles Lettres [LRBL]*), but that is not an issue because they see wholeness as itself problematic, a "paradox" (cf. p. 88). They make much of "gaps" and "absences," which they claim are "necessarily engendered" by the need to "fabricate" the existence of the whole (p. 21). A running claim/theme in the book is that this fabrication, an "imagined concord of divided wholeness" (p. 87), is an "idealized reconciliation" between laborers and the non-laborers (p. 78) (including the poor and the suffering). The latter are the majority, who are in HM's sense "absent," just as—and this is another persistent motif in the book—are the "multitude" or "mob," around whose contentiousness or resistance Smith has a problem and where his "silences" cluster (p. 11). The "reconciliation" that, according to HM, Smith provides is one in which all ranks co-exist peacefully; they are "transcendent[ally] equivalent" (p. 78; cf. p. 74). Within what HM call "capitalist sociability" (p. 47), equality is "phantasmic," and "ruled out existence in the name of public peace" (p. 46). They thus distance themselves from scholars, such as Samuel Fleischacker, who argue Smith is a radical egalitarian. For HM what is at work in Smith is an imagined notion of "a public" as existing "without substantive internal antagonism" (p. 77).