Discussion and Reviews

International integration and the welfare state: a review of Gunnar Myrdal, An international economy: problems and prospects

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Although its title suggests an "economic" book pure and simple, Mr. Myrdal has given us a book of breath-taking breadth. An economist and sociologist of known achievements, a national political figure, and international civil servant of stature, Mr. Myrdal speaks with an authority which at least this reviewer finds at times overawing, if not even stifling. Moreover, the book draws on a wealth of data such as only a big organization like the Economic Commission of Europe can supply, and this, too, leaves the reader occasionally overawed. Yet it is written with sympathy and warmth but without cheap optimism or defeatist pessimism, which leaves one with the strong desire to be in Mr. Myrdal's corner of the ring. He might, in fact, be characterized as a shortrun pessimist and a long-run optimist-a pessimist as to the size of the obstacles to be overcome and the speed possible to overcome them and an optimist as to the eventual destiny of man.

It should be made clear that even summarizing the book is not really possible, since Myrdal has written a concise, as well as a long, book. Yet certain crucial problems emerge and certain proposed solutions, and the reviewer must be forgiven if he picks a few central threads and lays them before the reader as the essence of the book.

The world, even before the fateful days of August, 1914, never was really integrated. But at least the Western world was integrated after a fashion. It was an integration based on the relatively free movement of goods and services, on large movements of people and of capital, on a gold standard which gave supremacy to balance-of-payments problems, i.e., to international integration, if need be, even at the expense of domestic instability. It was based on England, around whose money and capital market, industrial power, and naval supremacy the "civilized" world grouped itself. One might add that it was also a world in

which "total" war had not yet been discovered and the cold war had not yet been thought of, in which military commitments were limited and one fought for a piece of land or something similarly and comfortably limited, instead of for survival or world domination.

This world is gone, if not forever, at least for our generation and that of our children. The reasons are manifold: There were wars which in retrospect were avoidable, which ate into the substance of nations, created long-lasting hatreds and mistrusts, led to misinspired peace settlements which themselves contained the seeds for further destruction and disintegration. But there were other more subtle changes, foremost among them the increasing integration of the nation-state into the welfare state.

Now Mr. Myrdal is frankly for the welfare state, which in a way was the Western answer to Marx. Not only did the gulf between exploited and exploiters not widen, it all but vanished, and it certainly was bridgeable and increasingly bridged as nations became richer and more and more able to afford decency toward the less lucky members of their own community. The basis for this integration was, however, unfortunately not the recognition that we are all children of God but rather that we are all members of the same political community, what the Germans called for a while a Schicksalsgemeinschaft. To put it bluntly: we had the same passport. Now, if one had felt a child of God in this matter (even if the child thought of himself as an atheist or agnostic), the integration would have been both local and international. As it was, it was neither, but national instead.

This national integration was based on the sociological—or at least non-economic fact that the members of a nation felt themselves to be part of one community, willing to undergo sacrifices for one another, but this feeling of a community depended largely on the fact that outsiders were excluded, chiefly persons with the wrong passport.

The price of this national integration was high. It spelled international disintegration. No longer did people migrate freely; no longer was capital to move freely; no longer were domestic monetary or fiscal policies aimed primarily to insure international compatibility with the policies of other nations. Myrdal considers the price, though high, yet reasonable, and he would not give up the achievements of the welfare state. His program is rather the extension of the welfare state on a world-wide, or, rather, a non-Soviet world-wide, scale.

There is a third reason for the present state of the world. The underdeveloped countries are on the move. While the West has grown richer, the underdeveloped countries have certainly not kept pace and may even have retrogressed. (Statistics are rather poor to say whether they are now slightly better or worse off than fifty years ago; it does not seem to matter much, once you are that poor. After all, a man who cannot swim drowns in 10 feet of water as easily as in 1,000 feet.)

Now half of Myrdal's book deals with the problems that the underdeveloped countries have to overcome if they want to get anywhere except deeper into the hole. But basic to their success, as well as to an outcome acceptable to us and to them, is a change of heart also on our side. We must learn to think of them as fellow human beings rather than as foreigners, just as we have learned to think of farmers hit by drought or workers hit by unemployment or aged hit by sickness as fellow citizens rather than as improvident or unlucky members of the lower orders. That is, Myrdal basically proposes the expansion of the welfare state on a world-wide scale as his solution to the present inconsistencies between domestic

welfare and international responsibilities. He would settle for a partial integration of the "free world."

There is no glossing over the enormous difficulties-economic, political, sociological, psychological-which must be overcome both within the underdeveloped countries and in the richer parts of the free world. The necessity for reforms, the urgency to do something about the population problem, the crucial need for domestic capital formation, and the essential need for patience within underdeveloped countries not to take second before first steps are stressed as much as the need for developed countries to get outside their own shell and be true to their own best heritage. It is impossible not to agree with most of Myrdal's analysis and with virtually all his aims; and, indeed, there is such a consensus of opinion that one ought to wonder more than is customary about why we are still so far from the desired goal.

Surely, one cannot quarrel with the desire to see poor countries better off. Most people even would somehow agree to an international redistribution of income without necessarily demanding a military or political quid pro quo and without any ulterior motive if the problem were put plausibly to them: after all, Christians have been sending medical and educational missionaries for a long time without thought of return; yet the very people who have generously financed a foreign hospital are likely to be also people who object to their government's giving away their tax money unless there is an immediate quid pro quo.

It is difficult to disagree with Myrdal's analysis that only in exceptional circumstances is the relation of a giver to a receiver bearable for all concerned and that the injection of a more business-like (if not business) spirit into international aid would be all to the good. Similar proposals have been made by others; thus Millikan and

Rostow's book (2) spell out this kind of proposal in great detail.

Underdeveloped countries will also meet with a great deal of sympathy in their request that they be allowed an economic behavior which in the case of advanced countries would justly be considered disruptive of international integration and bad international manners. Myrdal is quite strong in his condemnation of tariff policies to preserve a status quo in economies which are flexible and quite capable of easing the shocks of transition for the persons affected. while at the same time he defends such policies for underdeveloped countries with a modernized and sophisticated version of the old infant-industry argument. In fact, he uses the argument (which is really misnamed and should be called the "infantcountry" argument) in its only legitimate manner. For the author of the Political Element knows full well that in F. List the tariff argument was bound up not with the growth of a particular industry but with the stage of development of the economy, and this undoubtedly was also true for Hamilton.

Yet many uneasy questions remain in one's mind. He would be a brave man who would defend colonialism, and I have no intention of doing so. Yet Myrdal himself again and again points to the Indian Civil Service as a legacy of colonialism which could be turned to good use. Even colonialism, like Goethe's Mephistopheles, at times produced some good. Moreover, it seems to me that colonialism (which was and is an evil) has successfully been made responsible for a lot of things of which it is quite innocent, precisely because it is an evil. It is as if a police chief put all murders committed in his bailiwick on one murderer so that he need not be troubled with the others.

The concentration of underdeveloped countries in the production of raw materials for the international market is a case in point. No doubt, comparative advantage (or however you want to put it) accounted for it in the first place. No doubt, the instability of raw-material prices, the lack of diversification of underdeveloped economies, and the like are unfortunate, to say the least; we may even grant that in some cases not only was there no integration of the export industries into the rest of the underdeveloped economy, but there may even have been attempts to destroy existing cottage industries and to prevent the growth of new ones. And all this not only in the name of colonialism (however disguised) but sometimes even in the hallowed name of free trade and world integration itself.

Yet this seems far from the whole story even for such a limited problem. In the first place, in many instances export production brought previously unused and sometimes previously even unusable resources into production. If the country did not get much for the additional production, neither did it lose anything in terms of opportunity cost: Malayan rubber is a case in point, in which previously sterile and virtually uninhabited jungle was made to yield a crop with immigrant Chinese labor. According to Myint (3), something like this also seems to have taken place within Burma.

Mr. Myint also makes a further important point which touches, of course, on Mr. Myrdal's emphasis on internal reforms; not only are the external terms of trade a problem for many raw-material-producing countries; so are their "internal" terms of trade, their income distribution. To put this into the shoes of colonialism (which Mr. Myrdal does not do) or even onto the head of free trade (which Mr. Myrdal appears to be doing at times) seems to me to lean over backward.

In fact, the insistence on free trade by the developed countries seems to be something of a villain in the piece, though a rather minor one. The major villains undoubtedly are the social conditions within the underdeveloped countries themselves, which have led them to accept, without question and for all too long, a pattern of explosive population growth, unproductive use of such small savings as they can marshal, corrupt government, and abject poverty.

In fact, Mr. Myint concludes that at least for countries like Burma which do not have a population problem—"semi-empty countries," as he puts it—it would be a mistake to

"react blindly against the 'nineteenth century' pattern of international trade and embark on a policy of protection to foster domestic manufacturing industries. analysis suggests that the chief source of trouble lies with the internal pattern of economic development rather than with the external pattern of international trade. The former failed to pass on the full benefits of the international division of labor to the people of the backward countries. It also appears to be partly responsible for whatever disadvantages the backward countries may have suffered in the way of unfavorable external terms of trade and lack of dvnamic economic stimulus from international trade.

"This would suggest that the people of the backward countries are likely to gain most from a compromise policy of external free trade combined with internal state control. In the peasant sectors, state control should take the form of more effective use of the marketing boards already in existence. In the non-peasant sectors, state investments and partnership with private concerns may be needed to facilitate the switch-over from the cheap labour policy to a better labour policy with a greater vertical mobility of labour into skilled grades.

"This conclusion, of course, applies only

to the particular, but not unimportant, type of backward country we have been considering and not to the overpopulated backward countries where the case for a protectionist policy for industrialization may well be stronger" (3, p. 141).

Now this is not quite the same as Myrdal's findings, but it is nevertheless quite in line with his (and everybody's) aims. Myrdal suggests, in fact, that a developing country which does not develop balance-of-payments trouble is not doing well-oil countries perhaps excepted-and that tariffs imposed by underdeveloped countries would not reduce trade but only change the composition of their imports. Yet Metzler's analvsis suggests that, in the case of a country faced with an inelastic demand, tariffs will not have a protective effect, since they will turn the terms of trade in favor of the export good (1) even when the tariff is included in the import price.

I believe that some countries like Burma can make a good case for tariffs, but not on the basis of the infant-industry or infantcountry argument. If the Metzler analysis applies, i.e., if the country faces an inelastic demand (and this is what most underdeveloped countries claim), tariffs will increase foreign-exchange earnings precisely because the terms for trade will move violently in favor of the tariff-imposing country. And, since foreign exchange is a scarce resource, any increase in its availability will ipso facto enable the country to speed up the development of its economy. (All this assumes, of course, no retaliation on the part of other countries.)

Second, an argument could be made that tariffs in underdeveloped countries are a particularly good way of taxing people who have an income. In a country in which a progressive income tax is administratively not feasible and in which imports go mostly to the upper-income groups, tariffs may well

be the only way to tax them and to mobilize some of their resources for investment. In fact, tariffs may be the only form of taxation which can be collected at all. But this is not to say that the "protected" industry will now develop at home. Quite the contrary.

Therefore, while I find myself quite unconvinced of the indictment of free trade even in the case of underdeveloped countries, I nevertheless would be happy to see underdeveloped countries improve their agriculture and build up their industries; and I would accept certain interferences with trade. Thus I find myself in the strange position of disagreeing on the arguments but agreeing on the aims and even largely on the means to the ends.

Myrdal stresses another point: underdeveloped countries should increase domestic industrial production not only for the domestic market but also for exports primarily to each other. To this I would heartily agree.1 Yet this really provides another argument for free trade. If the trade matrices of underdeveloped countries were analyzed, I believe it would be found that the kind of goods they could quickly produce under the stimulus of protection are imported from one another (or perhaps from Japan and India, such as textiles), while imports from advanced countries are mostly capital goods, on which development depends, or food for the masses, which in particular situations cannot be had elsewhere. The poor countries are liable to cut one another's throats by tariffs rather than protect themselves from competition by advanced countries. The problem might be partially solved by

¹ Many of the points were made in the ILO document, *The Economic Background of Social Policy Including Problems of Industrialization* (New Delhi: ILO, 1947), which appeared anonymously as a committee report but which was written by Dr. Chang Hsieh (still at the ILO) and the author.

circles of discrimination as it were, underdeveloped countries trading freely with one another but discriminating against advanced countries. The formation of regional customs unions might be sensible. Yet, while it is at least understandable that poor countries should try to keep competitive imports from other countries away from their borders, this in no way excuses the "voluntary" export controls that Japan put on her textile exports to the United States, of which I, as an American citizen, feel rather ashamed.

I have deliberately tried to make a case for freer trade as one satisfactory means of international integration, satisfactory even to undeveloped countries. This does not imply that I would not like to see those countries force the rate of investment in agriculture and outside it, or that I disagree with Myrdal on the need for increased capital movements and even some international redistribution of income. Everything Myrdal has to say on the necessity of increasing productivity in the underdeveloped countries is most urgently true.

Yet, where governments are corrupt and inefficient and there is insufficient entrepreneurial talent, is there any reason to believe that increased state control will do the trick? I have no objection to state enterprises as such or to the Western type of over-all planning, and I am quite ready to be convinced of the desirability of a degree of planning to speed development and guide resources into the deserved channels. But it is precisely in those countries which need it most that governmental planning is liable to fail. I am not trying to make a case for a simon-pure free-enterprise economy in, say, Ceylon. Clearly, the social and historic preconditions there are vastly different from our world, and different forms will have to be found to develop the economy and raise the standard of living without imposing the kind of slavery directed from Moscow.

The point to be stressed, by Myrdal as well as by every competent observer, is that if a country really wants to develop and understands what it is all about and is willing to pay the price not only in terms of lowered consumption but of very deepseated social changes, nothing but the country itself can stop it from developing-short of military occupation and deliberate suppression from the outside. Naturally, this is a vast overstatement, but the kernel of truth is rather bigger than the proverbial grain of salt. Political and social reforms must come from the inside; outsiders can only be asked not to perpetuate corrupt regimes. All this is known. But, once it is understood, it puts a somewhat different complexion on two problems discussed by Myrdal-the need for international mobility of people as well as of capital and the population problem.

Classical theory was built upon the assumption of international immobility of the factors of production—a strange assumption, no doubt, to make in the nineteenth century and one made, therefore, one suspects, for reasons of analytic convenience rather than for "realistic" or political reasons. As Myrdal points out (in the Appendix), the theory is therefore more relevant today than when it was originally developed.

One may speculate that the assumption was made originally for definitional purposes: We are analytically interested in the relation of more than one market. When is a market one market? When factors are mobile. When is it two markets? When factors cannot move and when therefore the old labor theory of value becomes inapplicable. It may be as simple as that; so why try to find more complicated political, sociological, or psychological reasons when a simple one is available?

Putting it this way makes Myrdal's points even more apropos. If "integration" is to mean "to become one market," then factors ought to become mobile, and not only goods. This, however, is a different meaning of "integration" from the classical one working through the free movement of goods alone.

The classical economists showed-and none has vet proved them to have been wrong under their own assumptions-that free trade would benefit all, compared to a no-trade situation, though none has ever proved that free trade was the best of all possible policies. Productive countries would still be richer in this analysis than less productive ones. Recent analysis has shown that free trade in goods may be not only a partial (5) but a complete (6) substitute for the free movement of factors. I am quite aware of the stringent assumptions which are required to make labor price equalization come true, and Ohlin, Heckscher, and Samuelson have, of course, stressed the lack of realism of some of the assumptions. But the analysis serves, nevertheless, to point up that it may not be the lack of free factor movements that is responsible for differences in living standards.

There are a few more points to be raised. Admit for a moment that China is overpopulated. Would a free movement of Chinese labor to the United States ameliorate the position of those who remained behind, other things being equal? The answer is, I believe, obvious: not unless substantial social and economic changes occurred in China. Free movement of population-which I believe to be desirable, if only for the political reason that people should be enabled to escape tyrannies and police states -are palliatives, even crucial palliatives. But they are not essential to integration, if by this is meant a state of affairs in which peaceful intercourse of nations exists which permits all to benefit from this intercourse and to develop to the best of their abilities.

Nor, if I read Myrdal correctly, does he intend to claim any more than that.

Many of the poor countries do have explosive population situations. Hence the difficulty is how to break through their vicious circle in which any increase in production will simply support more people at a starvation level. Countries which have already broken the circle, which have the seed of self-sustaining growth in them, would benefit by the breathing space that free migration of some of their population might afford them. The breathing space might even make the difference between success and failure. But, for others, migration might not even provide a temporary easing.

This seems to me the crux of the population problem: why is it that in some countries a population increase will tend to raise per capita production while in others it will crush any hope for a better future? The answer that some countries are just overpopulated and others are not or that the rate of increase is just too much is true enough and yet comes close to begging the question. Everyone, after all, knows that overand underpopulation-or optimum population, for that matter-are relative concepts, and many of us learned it from yet another book of Myrdal's. It is clearly essential to stop a population explosion in India before it occurs; but if such a limitation of population growth is successful, it will help raise living standards only because India is already on the move, because she has already a good beginning of self-sustaining growth.

I am neither a population expert nor a sociologist. Yet it seems to me that the answer must be found somewhere in the structure of society and in the reactions of the economy, which are vastly different in underdeveloped and in developed countries. If an increase in population leads simply to amoeba-like splitting—another

similar village is set up, another Greek colony is established which is a replica of the first—even the halt of population growth is not likely to do much good.

But in Western societies big cities are not simply bigger editions of small towns, nor are big factories simply blown-up small factories. Methods of organization change with growth; methods of production and perhaps even production functions change; there is some creative response to growth, some increased structuring which seems to turn population growth from a curse into an asset. I hesitate to speak more on a subject on which I am not expert, and I take the courage to speak as little as I do from the apparent absence of what could be considered a satisfactory population theory anywhere. Yet it seems clear that the population problem, which is real and staggering, is itself an outgrowth or a corollary of the very conditions which keep a country poor. The vicious circle of the population problem must be broken to give the other needed reforms a chance to survive and to give a country a chance to develop. But the crucial features of developmental policies, as Myrdal also stresses, lie even deeper than population policy. Yet what a waste to have people born merely to die young, never to grow to productive age, never to be able to enjoy what life could be.

Where does all this leave us? Clearly, Mr. Myrdal has written a moving and impressive book which is a "must" for every reader, economist and non-economist alike. His conclusion, entitled "A World Adrift," leaves little to optimism, cheap or considered:

"A study of trends and problems in the field of international economic integration ten years after the end of the Second World War must invest us with humility and even anxiety. This is, indeed, the effect which the marshaling of the data and the infer-

ences under the various chapter headings have had upon the present author. It is not possible to conclude that the non-Soviet world is now on the way to a higher level of economic integration. In most respects the trends are definitely in the opposite direction

"The practical problems facing us, if we want to change these trends, are momentous. Like all problems they can be solved on paper, and as my interest is constructive and primarily practical such paper solutions to the specific problems are presented in the various chapters. But my analysis has led me to conclude that translating these paper solutions into practical action would assume radically changed attitudes in all nations, and honesty requires that this crucial conclusion be put before the reader constantly. As the problems are urgent and as I fail to see what can induce such large changes in attitudes quickly enough, I finally emerge with what amounts to a string of almost insurmountable difficulties. I have not set out to write another utopia but a factual and practical tract: not to describe what could be done in a dream world but what we can reasonably expect to happen in the world in which we live. And such an analysis of international integration problems at the present time is bound to be disheartening if it is at all realistic.

"In fact, I know of no government and no political party in any country which is really facing up to these problems. There are small groups, like the Quakers in the Anglo-Saxon countries and some of the quiet scholars of the Roman Catholic Church, who, because of their religious preoccupation, have acquired the strength to see beyond the more immediate things. And there are in all parts of the world many individuals in the great humanistic tradition who also see what the inevitable conclusion must be. When such persons accept political re-

sponsibility—and some of them have responsibility of the highest order—a condition for continuance in power is that they accept and recognize the practical possibilities at hand in their several countries, determined by their fellow citizens' present attitudes and so reserve their profounder insights for general pronouncements that do not upset practical affairs" (4, pp. 299–300).

The return to the paradise of the nineteenth century, if paradise it was, is closed. We cannot, even if we try, do consciously through the International Monetary Fund, the International Bank for Reconstruction Development, and other institutions what we did unconsciously before 1914. We do know now "good and evil" and that innocence, once lost, is lost forever. Dismantling the welfare state would not get us back to paradise; the battle cry of some neoliberals is not utopian for the future, it is romantic backward-looking. But the end is not hell but a necessary rebirth. The brotherhood of man-even if his skin is not white and his passport is from a queer country-may well be the only rallying cry left to us.

Yet, if once we were in paradise, why not make such use of what we remember as we can? If we cannot get free movement of people, let us get at least as much trade as we can. If people cannot move to the industries, let the industries move to the people. And let us insist that some policies will not do the trick: Burning hotels is no way to get tourist dollars; blasting Lessep's statue will not earn Suez dollars; and nationalizing foreign assets will not attract foreign capital even as a gift, except in unusual cases. And let us insist that some of the older ideals may have been and may still be easier to achieve than the utopia of one free world.

And this is, in a way, precisely what Myrdal is urging us to see. It is inherent in the problem that there will be disagreements in detail, and it is inherent in our perspective that details will loom large when viewed from nearby. But the aim of developing underdeveloped countries, so that a family of free nations which are truly equal can emerge, remains and overshadows the details of just how much free trade is a good thing.

Nor is there quite as much conflict, I believe, between the welfare state-which, after all, only admits that we are our brother's keeper (who of us would deliberately prefer to be Cain, his brother's murderer?)and international co-operation, as some textbook versions would lead us to believe. Even the experts of the numerous international conferences of the 1920's tried to convince the various countries of the need to co-ordinate their monetary policies to reconcile domestic aims and international responsibilities. Our knowledge of economic processes has increased substantially since then. Monetary discipline, to use a recent rallying cry, need not, after all, mean unemployment; and international co-operation is quite consistent with siphoning off excess purchasing power, particularly within an advanced economy, by means which are vastly superior to tariffs, to say nothing of quantitative restrictions. At the same time, the refusal of some British coal-mining union locals to admit Hungarian refugee miners seems more like an example of human perversity than a necessary concomitant of the welfare state.

If anything emerges clearly from Myrdal's book, it is that our choices are really not at all of the "either-or" variety but of the "more-or-less" kind. The overriding case for raising the living standards in underdeveloped countries remains. So does the case for as much international integration as possible through the free movement of goods as

well as through such other means as our conscience dictates or ought to dictate.

This is Myrdal's conclusion:

"The industrially advanced countries have increasingly during recent years stalled on all these practical matters of international cooperation; my fear is that this may continue and that at the same time, bitterness will grow in the underdeveloped countries where stagnation will persist and economic development in any case be uneven and too slow. The advanced countries, under the impact of the cold war, and the spur of an unbroken sequence of political calamities, have felt compelled to devote an enormous share of their growing wealth to increasing continually their military power of destruction, which under the circumstance is understandable and defensible. But by the logic of the tragedy this has also given reason to their economic nationalism and comfort to their conscience when stalling on international cooperation. My fear is that they will continue to find reasons and comforts useful to this end.

"To close this book on a note of fatalism would, however, be contrary to its purpose and its basic nondeterministic philosophy. The future is not a blind destiny but it is, instead, under our responsibility. We have the powers to analyze the facts and to establish rationally the practical implications of our ideals. We have the freedom to readjust our policies, and, thereby, to deflect and change the trends" (4, p. 335).

There is a price of leadership to be paid by advanced countries. Mr. Eisenhower has stated it in his Second Inaugural Address: "The building of such a peace is a bold and solemn purpose. To proclaim it is easy. To serve it will be hard. And to attain it we must be aware of its full meaning—and ready to pay its full price."

But, as in the ancient fairy tales, the impossible tasks that are set the hero turn out suddenly to be quite manageable. I should not be surprised to find that, however great the obstacles are in prospect, in retrospect they may well turn out to have been less formidable than we thought.

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