

## CAUSES AND NATURE OF DEVELOPMENT\*

Gunnar Myrdal\*\*

### I

Traditionally there has been a tendency in the economic literature, and generally in public discussion, to equate development with growth of the produce. The gross national product, GNP, has been the kingpin of the analysis of development. Both in regard to the developed and, in particular, the underdeveloped countries, the postwar analysis has in this way been even more limited and one-sided in approach than were the writings of many of the classics and neo-classics from Adam Smith to Alfred Marshall--not to mention Friedrich List and Karl Marx. Besides to the "economic factors" they gave importance to other factors. Indeed, they were institutional economists before that term had been invented.

In turn, growth has regularly in a simple way been related to physical investment, and there was a time not long ago when the attempts of some economists to include also education was looked upon as a discovery. The adherence even by this rebellious faction to the capital/output ratio

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\* The views expressed in this brief lecture have been developed in greater depth and then also been more closely substantiated in several publications by the author and most recently summarized in *Against the Stream. Critical Essays on Economics*, Pantheon Books, New York, 1973, particularly Chapters 5, 6 and 10.

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was, however, so conservatively faithful, that education as "investment in man" was simply added to the input of physical capital in that ratio.

This implied an unwarranted simplification of the approach to the problem of the role of education for development, that Marshall had warned against. It thus excluded study of what is really important for development, viz. what is being taught and with what effects on attitudes and institutions, and also often how education is apportioned as between the elementary, secondary and tertiary schools and, in particular, the related query how the educational system benefits -- or hurts -- children and youth in different social and economic strata, and upholds, or tends to change, the existing stratification. It is a fact that in many underdeveloped countries education often is anti-developmental.

I will come back below to the problems, how development should properly be defined, and how the relation between economic growth and the wider category of development should be understood. But I first want to hint at the weaknesses of the concept GNP.

## II

Although, as we know, the concept GNP is commonly used by economists, journalists and politicians without any critical scrutiny of how it is calculated, there is a creeping awareness that it may be inadequate to reality and to the policy problems rooted in this reality, particularly when dealing with long-term growth -- and so even in developed countries with their superior statistics and, in many respects, theoretically simpler problems.

There are a great number of income elements which are not accounted for at all or calculated in a grossly arbitrary way. Those who actually make the primary statistical observations, the often crude estimates implied in their computation and finally the aggregation into figures for GNP and its main ingredients, are usually aware of this, and

may make their reservations, though seldom very completely. There are, however, other defects less often seen even by them.

Thus many income items represent expenditures for society and costs and losses for the private citizens that are caused by undesirable conditions and developments, for instance the expenditures, costs and losses arising from the existence of the huge slums in the United States or from that country's higher level of criminality.

To the same category of dubious items in the GNP belong those corresponding to the expenditures for all sorts of "conspicuous public consumption" serving no or little purpose of consumption or production, like in the United States for paying for the moon flights and for wars and armaments. The corresponding incomes should not be permitted to count in its GNP, when comparison is made with countries that disdain such a use of their productive resources or indulge in it to a much smaller extent. Indeed, they should not be valid for the liberal minority in the United States itself who are critical against the policies resulting in these expenditures.

Then we have the environmental problem of which even the general public has been made aware in recent years: the depletion of natural resources and the poisoning of air, water, land, vegetation, animals, even our own bodies. The true facts of the ongoing depletion and pollution are, however, known only within broad margins of uncertainty, and about all estimates there are disputes.

We have not, and cannot within the near future, expect to have, a reliable basis of knowledge to make it possible to calculate figures for what should be subtracted from GNP in order to account for depletion of resources and the ongoing pollution. We only know, that these unknown figures for what should be subtracted must be very considerable.

Against this background the carelessness in the common use of figures for GNP must be seriously censured. Particularly in regard to international comparisons, which in scholarly writings as in public discussion are regularly

made on the crude basis of the exchange rates, the recent turmoil in the monetary field should have demonstrated another side of the arbitrariness of GNP as a measure of production.

### III

Economists sometime try to rescue the traditional concept of GNP by maintaining it only measures the production of goods and services but that there are many other things that are of importance for the "quality of life".

Against this, it must be pointed out, first, that as I have stressed, GNP cannot be relied upon to measure production very accurately. Moreover, the "quality of life", is not a very clear concept useful for scientific analysis.

In any case it cannot be very helpful to give a clearer meaning to the GNP. All those items which are excluded in the calculation of GNP as also those that are dealt with in an arbitrary way, like those which are properly accounted for, are, of course, all of importance for the "quality of life" whatever we would mean by that expression. This latter term does not provide a line of distinction around the conventional concept of GNP.

A more learned expression for a similar thought is to rely on the "welfare theory", inherited from the first generation of the neoclassics, to which establishment economists have conservatively adhered. Measuring welfare, it is said, should not impute value to all goods and services according simply to their market prices. But the question of the importance of the people's welfare cannot possibly depend upon whether or not an item is properly accounted for, or not, in the calculation of GNP.

This observation is logically conclusive. But besides this the modern welfare theory is equally metaphysical as the old inherited one. In spite of the escapist terminology, which also mostly is inherited, the truth is, that if this theory means anything at all, it means it only in

terms of the forlorn moral philosophy of utilitarianism as founded upon an equally antiquated hedonistic associational psychology.

#### IV

A third attempt to rescue the concept of GNP is to stress a distinction between growth of production, on the one hand, and development, on the other. GNP, it is said, is merely measuring the increase in production, while development must be conceived of as a wider category.

It is true that development must be conceived of as being something different, and wider, than simply growth of production, assuming that the latter concept could be properly defined as an increase of GNP, which I deny for reasons already given. But let us for the moment forget about GNP and ask what we should mean by development. I am finally coming to face the problem stated in the title of my lecture today.

I mean that development must be understood as the movement upwards of the whole social system, including besides the growth of production along various lines, the conditions of production, distribution of the produce, consumption of different types in different social and economic strata and other living conditions, institutions and attitudes, particularly the political, social and economic stratification, and finally policies as they are applied, indeed everything which is significant for the individuals' lives and for social relations generally between individuals and groups.

The various conditions can for scientific analysis be ordered in main categories, as I have tried to do. Between the various categories of conditions there are causal relations. This implies that a change of one set of conditions causes changes of the others, these secondary changes again causing changes all around, and so on. The social system therefore moves, or remains static, by what I have called a process of circular causation.

Most of these causal links, but not all, imply a movement in the same direction of the several conditions or factors. The circular causation tends therefore to be cumulative.

Even in developed countries with their superior statistics and other information the coefficients of the causal interrelationships are mostly unknown and are in any case not known in precise quantitative terms. This, however, cannot be given as a reason, why we should not conceive of development as a movement upwards of the whole social system. But we shall always be far away from a full knowledge of whether a country is developing and how fast. As always in scientific inquiry we have to operate with reasonable hypotheses, approximations and generalizations.

Already for this reason we shall not hope that we will ever be able to produce an index of development from year to year. But for this conclusion there are more fundamental reasons.

When in my study thirty years ago of the Negro problem in the United States I first made use of this system analysis expressed in terms of the circular causation with cumulative effects, I still believed that it would be theoretically possible to work out an index of the "status" of the Negro population in that country, if our knowledge would be more complete and precise, although I saw the difficulties to find a rational method to weigh and then aggregate all the factors that would have to be taken into account.

Now I know that even theoretically and assuming complete knowledge, it is not possible to construct a simply rational system of weights that would be needed in order to represent the development of the Negro status by merely one figure, i.e. by an index.

## V

The question remains, however, whether GNP cannot be defended as measuring the level and the change of one important category of conditions in the social system, viz., production. Even although we give up the pretension that GNP represents what we must mean by development, it could nevertheless be of scientific importance for the study of the wider problem of development to be able to ascertain that important special factor, which is presumed to be possible to determine more precisely in quantitative form.

The first reason why the GNP cannot be accepted in this more modest role is, of course, that the concept gives a false representation of production and its growth. I refer here to the catalogue I have already hinted at of the deficiencies in the statistics on GNP.

The second and more basic reason derives from the very concept of development as the movement of the whole social system. Even production if it could be defined more correctly, which is not done in the conventional discussion is part of, and dependent upon, what happens in the wider social system.

The real situation is that we are facing a tremendously complicated problem of development in the meaning of the movement of the whole social system determined by the causal interrelations between all conditions. It is difficult to find any meaning in pressing the statistics to provide one single figure for even that one set of these conditions, viz., production. This would imply falling for the common temptation in economic analysis to what I have called "unwarranted precision". Such a precision becomes, of course, particularly deceptive because of the statistical deficiencies I have already pointed to.

The very idea that it should be possible, even if only for one set of factors in development, viz., production, to characterize the situation in a country and its change by an

index is logically invalid. In every comparison, whether in time or between different countries, we must account for a whole series of components. Only in the very short run and for very similar countries can an index say something and even then only very roughly.

For particular items under the level of GNP we can sometimes calculate figures with more meaning. If the items have been defined properly, we have all reasons to use in our analysis of the larger problem of development what we can know about production in different fields, consumption of different commodities and services in different regions, and in different social and economic strata, investments of different types, prices, wages, exports and imports, etc. It is the aggregation into a total figure for production we have to watch against, and not merely the presumption that such an aggregate figure represents development.

## VI

So far, I have not touched specifically on the question of the distribution of the produce. The conventional concept of GNP takes no account of distribution.

Particularly since John Stuart Mill a sharp distinction has in establishment economics been made between two spheres, production (including exchange) and distribution. For the purposes this distinction has been used, it is illogical. Production and distribution are determined within the same macrosystem and they are interrelated.

The idea we still meet in economic discussion, that it is important to increase production in order to have more to distribute, does not take into consideration that distribution can have an influence on the changes in the level and the size of production.

This distinction between production and distribution has moreover traditionally been used by economists as a means to avoid in their analysis the problems of distribution and to concentrate on those of production, usually with



only a general reservation for distribution.

In regard to distribution the general view has continually been, that redistributational reforms carry their costs in a somewhat retarded growth of production. This assumption has through the ages been founded merely on speculative arguments. Even today we do not have much of empirical studies done, even of such simple "economic" problems as the effects of distributional changes on labor input, labor efficiency, savings and investments of various sorts.

## VII

Already in my early youth I and some other economists, who then were in their youth, propounded in my home country, Sweden, the contrary theory, that well planned egalitarian reforms could be preventive, prophylactic and productive by saving the individuals and society from future costs and/or increasing productive capabilities of the people.

This way of thinking has since then been the theory of the welfare state which has advanced with an actually accelerating speed under a Labor government, that now --through all the vagaries of elections every second, now third, year, and the exigencies during the Second World War -- has remained in power for forty years.

During this period the conservatives and the conventional economists maintained at the initiation of every important welfare reform, that it was inimical to economic advance, often warning that it would ruin the country. Only in recent years have they shown more reticence, since their earlier warnings have so obviously not come true.

In fact, the rapid building up of the welfare state in Sweden has happened while production, however you measure it, has been rising spectacularly. While at the beginning of this century Sweden was still a rather poor country, it is now richest in the world.

There are other fortunate conditions and developments in Sweden behind this rise in production.

Nevertheless, this extraordinary economic development seems to give an *ex post* confirmation of our theory that greater equality is conducive to economic progress. When in the very last years the Swedish economy has tended to stagnate, there is now no competent observer who puts the blame on the big social reforms that have been carried out. The explanation is obviously that by faults in general economic policies we have not prevented that even Sweden has now entered an era of "stagflation".

I should add, that as an economic scientist I am not entirely satisfied with that historical evidence. I would like to see carried out intensive studies of the effects of the various egalitarian reforms in terms of cost/benefit analysis.

I have permitted myself these brief remarks on what has happened in the richest country, because I think it has an important lesson to teach, not least to the underdeveloped countries.

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When after the Second World War and the breakdown of the colonial power system, which followed in its wake, the economists in great numbers turned their interest to the development problems of underdeveloped countries, an almost self-evident assumption to most of them was, that these very poor countries certainly could not afford egalitarian reforms. They had to direct their development efforts single-mindedly on increasing production first. That this bent of their minds followed a way of thinking that was traditional in our craft, I have already pointed out.

On the contrary, I believe this assumption is wrong. When, as I have been permitted to point to, speedy and accelerating welfare reforms have been productive in the richest country, this must be even more true in the poverty

stricken countries. There masses of people suffer from undernourishment, malnourishment and other serious deficiencies in their levels of living, particularly the lack of sufficient health and educational facilities, extremely bad housing conditions and sanitation.

The living conditions of these masses hold down their productivity. This implies that by improving them productivity could be raised. I most sincerely believe that in underdeveloped countries large-scale egalitarian reforms constitute the most profitable investment such a country can undertake.

When the conventional economists in their work on the development problems of underdeveloped countries turned their eyes away from the equality issue, part of the explanation was also that they, particularly in the beginning, used the approaches and models they had perfected for the analysis of the developed countries. There incomes even in the lower income brackets were already so relatively high and supported also by social insurance, that they could use models of growth that did not explicitly imply consumption. But when they used these models in countries where incomes and levels of living are extremely low for large masses of people, this went seriously wrong.

IX

In order to prove my major thesis that raising the living levels of the poor masses is productive, I would now need to account in detail for conditions as they are and as they could be changed in underdeveloped countries. This I cannot do in this brief lecture.

But let me touch on another superficiality of traditional establishment economists, besides their tendency to deal with egalitarian reforms as generally inimical to a rise in production. When they do take up the problem of distribution at all, they tend to think in terms of money incomes.

In fact, the redistribution of money incomes can, particularly in very poor countries, not amount to much. First, the rich are usually rather few. Second, higher taxation of the rich is very difficult to give effect to in underdeveloped countries, where tax avoidance and tax evasion usually are colossal. Third, and most important, what the poor masses really need is not a little money, but more fundamental changes of the conditions in which they are living and working.

In agriculture there is need for a changed relation between man and land, that creates the possibility and affords the incentives for man to work more and work more effectively in order to raise the yields, and to put all resources he can lay his hands on, in the first hand his own labor, into improving the land. Land and tenancy reforms--which can take different forms -- need to be supplemented by auxiliary reforms to provide credits, agricultural extension services, etc. But without more fundamental institutional reforms in order radically to change the relation between man and the land he works on, these strivings for "community development" have proven ineffective.

Such a package of reforms must serve both the purpose of creating greater equality and raising productivity. And the two purposes are indissolubly joined together. It is not a matter of simply redistributing the produce, least of all in terms of money income.

In the same way a really effective educational reform, important both for creating greater equality and higher productive capability of the people, must aim at much more than putting more children and youth in schools. The whole educational system must be changed, the manner of teaching and the content of what is taught, and its impact on the inegalitarian social and economic stratification. It is a fact, that in many underdeveloped countries, the adherence to the inherited educational system, letting only the channels widen under pressures which mostly come from the relatively privileged classes, still is mainly anti-developmental.

The population explosion has a tendency to increase inequality in an underdeveloped country, at the same time as it hampers economic growth. I have come to the conclusion that a really successful policy to spread birth control among the masses assumes a whole package of reforms which can give people the feeling that they are living in a dynamic society that increasingly opens up to them more of opportunities to improve their situation.

Underdeveloped countries are "soft states" with grave deficiencies in legislation and the implementation of the laws. In such a society laxity and licentiousness spread to all social and economic strata. But it is those who have economic, social and political power who can really exploit the lack of social discipline for their own enrichment.

The fight against the soft state and, in particular, against corruption, which seems to be on the increase almost everywhere, is therefore strongly in the interest of greater equality. That these types of deficiencies in the social order are hampering economic progress is at the same time undeniable.

Conventional economists accustomed to think in terms of money incomes have until recently not given much interest to these types of social reforms which I have exemplified. They have then also pleased the elite strata, that in most underdeveloped countries, rather independent of their constitutions, hold the power and who generally are not so interested in radical reforms of a society where they are privileged.

X

In the very last years there has been a movement, that has reflected itself in resolutions in various organizations within the United Nations system and in studies and reports by experts called together by them, demanding a "unified" or "integrated" approach to the development problems of underdeveloped countries. They are directed against the tendency of conventional economists to reason in terms of only the

"economic factors". They demand a broader approach, taking into account also the social reality of institutions and the attitudes formed within these institutions and themselves supporting them.

It is coming to be realized that the models imported from the analysis of developed countries lead to mistakes, as these institutions and attitudes represent much more powerful inhibitions and obstacles to development than in developed countries. What is demanded is in fact an institutional approach in the study of underdeveloped countries. There is still much confusion, but, as I said, a movement is on the way that in time will overcome much of the criticism against conventional economics I have raised and also briefly referred to in this paper.

At this movement towards a new approach is gathering momentum, interest is becoming focused on the close relation between greater equality and higher productivity, and towards the more radical institutional reforms where these two purposes are indissolubly joined together and which I have today briefly exemplified.

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