

## Semester IV

### GEO-A-CC-4-09-TH- Regional Planning and Development

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#### Topic: Myrdal Cumulative Causation Theory:

Karl Gunnar Myrdal was born on December 6, 1898. He graduated from the Law School of Stockholm University in 1923 and began practicing law while furthering his studies at the university. Myrdal received his doctorate degree in economics in 1927 and was appointed as a docent in political economy. He received the Nobel Prize in 1974 for his 'pioneering work in the theory of money and economic fluctuations and penetrating analysis of the interdependence of economic, social and institutional phenomena'.

Karl Gunnar Myrdal, a Swedish economist and sociologist gave the Circular and Cumulative Causation theory in 1957. Basically his model is a hypothesis of geographical dualism, applicable to nations and regions within nations, which attempts to account for the persistence of spatial differences in economic development both between nations and regions within nations. The classical economists are of the view that the expansion of international trade can be taken as an important source of economic development as it has equalizing effect. But some of the recent economists have argued that international trade cannot encourage growth specially in under developed countries.

It rejects the assumption of automatic tendency of socio-economic system towards stabilization and holds that a change does not create opposite reaction but other changes which emphasize it. When analyzing the socio-economic development at a global level, this theory is based, according to Blazek (2008) on three facts:

1. There is a small group of wealthy countries and many more extremely poor countries.
2. Wealthy countries continues to grow while poor states stagnate (here Myrdal notices the paradoxical fact that the stagnating countries are termed developing countries - the countries which are developing).
3. From a global point of view the differences between the rich and the poor are growing larger.

Prof. Gunnar Myrdal maintains that economic development results in a circular causation process leading to rapid development of developed countries while the weaker countries tend to remain behind and poor. Myrdal believes that international and inter-regional economic relations in practice involve unequal exchanges in the sense that the weak is always exploited by the strong. He describes the backwash effects of migration, capital movement and trade in the backward regions. The main cause of backwardness and regional disparities has been the strong backwash effect and the weak spread effects.

### **Backwash Effects**

Negative effects of the core's growth on the periphery. Out-migration of economically active people, outflows of capital, decreasing tax base, firms of the periphery not able to compete with the firms of the core and therefore periphery being flooded with core's products.

### **Spread Effects**

Positive effects of the core's growth on the periphery. Core unable to supply all the products the Core is demanding so supply from the Periphery to the Core. Core becomes affected by NEGATIVE EXTERNALITIES (high rents, overcrowding, congestion) so firms locate in periphery.

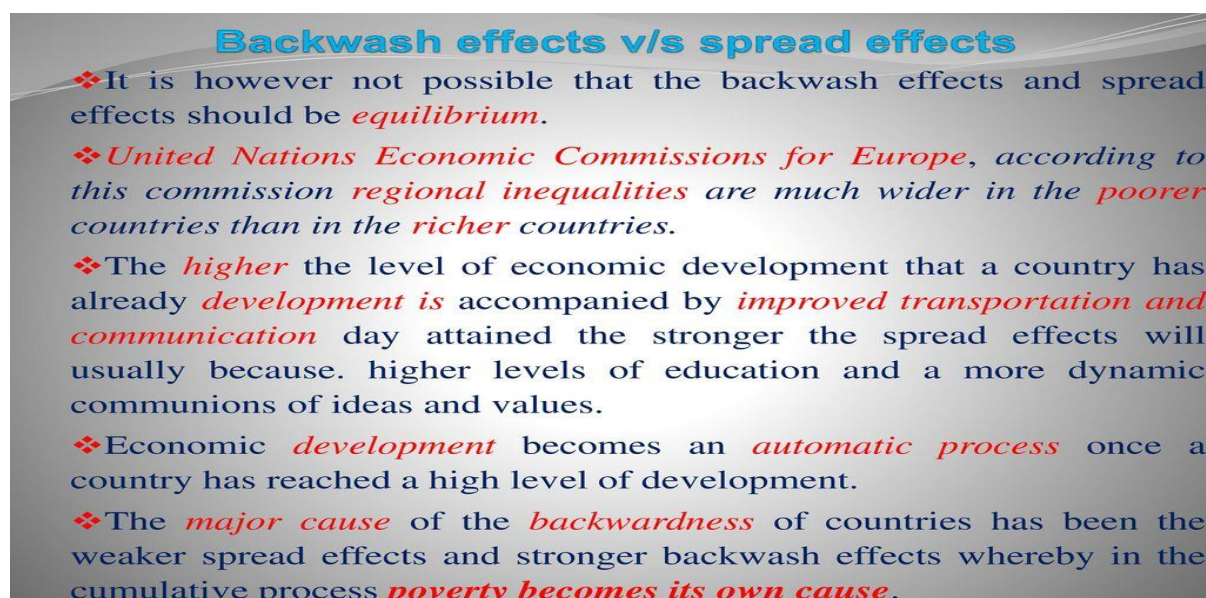
Key question – Will the benefits of the Core's development "spread" or "trickle down" to the periphery?

Inequalities emerge because  $BWE > SPE$ . Developed region is developing at a faster rate at the cost of backward region. Income earned by developed region is not reinvested in backward regions but is repatriated to the developed sectors/regions leading to more development in these areas. SPE continued to become stronger in developed countries while BWE continued to become even more spread in backward countries. The two effects are never in equilibrium Condition.

There were some SPE from nodal regions to the hinterland. The hinterland supplies raw material, labour, etc. to the centres of development and in turn receive consumer goods and services. However, these SPE never helped in self-expansion process in rural areas.

According to him if market forces are left free, economic activities which give a higher than average Return in developing economy as well as cultural activities would tend to cluster in certain localities or regions due to increasing benefits of internal and external economies. The rest of the country would remain in backwater. Myrdal was convinced that market forces lead to deepening of interregional differences- i.e. the rich regions are getting richer and the poor are getting poorer.

#### **BACKWASH vs. SPREAD EFFECTS:**



**Backwash effects v/s spread effects**

- ❖ It is however not possible that the backwash effects and spread effects should be *equilibrium*.
- ❖ *United Nations Economic Commissions for Europe*, according to this commission *regional inequalities* are much wider in the *poorer* countries than in the *richer* countries.
- ❖ The *higher* the level of economic development that a country has already *development is* accompanied by *improved transportation and communication* day attained the stronger the spread effects will usually be. higher levels of education and a more dynamic communions of ideas and values.
- ❖ Economic *development* becomes an *automatic process* once a country has reached a high level of development.
- ❖ The *major cause* of the *backwardness* of countries has been the weaker spread effects and stronger backwash effects whereby in the cumulative process *poverty becomes its own cause*.

1. Regional inequalities are much wider in poorer than in the richer countries
2. Regional inequalities are increasing in poorer countries and diminishing in richer ones.

Market mechanism will not bring equality between regions but will increase inequalities. Myrdal contention is that: - the free play of market forces and operation of profit motive in the capitalist system normally tends to increase inequalities between regions rather than decrease. When BWE dominates; Divergence will develop; periphery will remain weak, only center will develop and dualism in growth is promoted. When SPE dominates; Convergence will develop; periphery will develop, there will be economic integration between center and periphery.

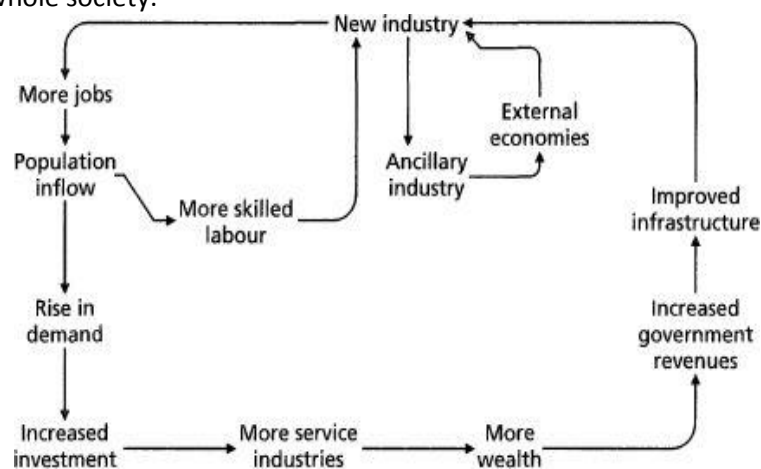
#### **CUMULATIVE CAUSATION:**

Circular cumulative causation is a multi-causal approach where the core variables and their linkages are delineated. The idea behind it is that a change in one form of an institution will lead to successive changes in other institutions. These changes are circular in that they continue in a cycle,

many times in a negative way, in which there is no end, and cumulative in that they persist in each round.

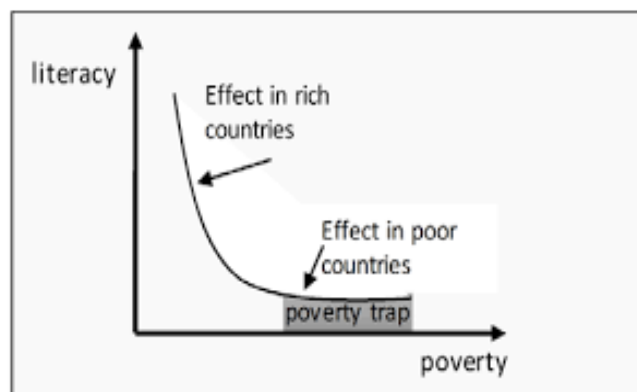
The impulses which may cause negative cumulative process include a sudden bankruptcy of a production plant or local increase of taxes. In this context, Myrdal points out that the rich regions may utilize external and internal economies of scale. Myrdal considers traditional mechanisms such as mobility of capital, regional drainage (outflow of financial resources from the periphery to the center via bank system) and selective migration a means by which cumulative mechanisms manifest themselves. Myrdal held that the effects of individual cumulative mechanisms are related and lead to a growth spiral - i.e. to the outflow of growth sources (capital and labour) from the underdeveloped to more developed regions.

If regional inequalities are promoted through circular causation, then doctrine of balanced regional growth is to be advocated. Myrdal recommends promotion of capital goods and import substitution industries which permit simultaneous development outside the sphere of modern large scale industry. He wants employment creation to be the main plank for poverty removal. Which are beneficial for the whole society.

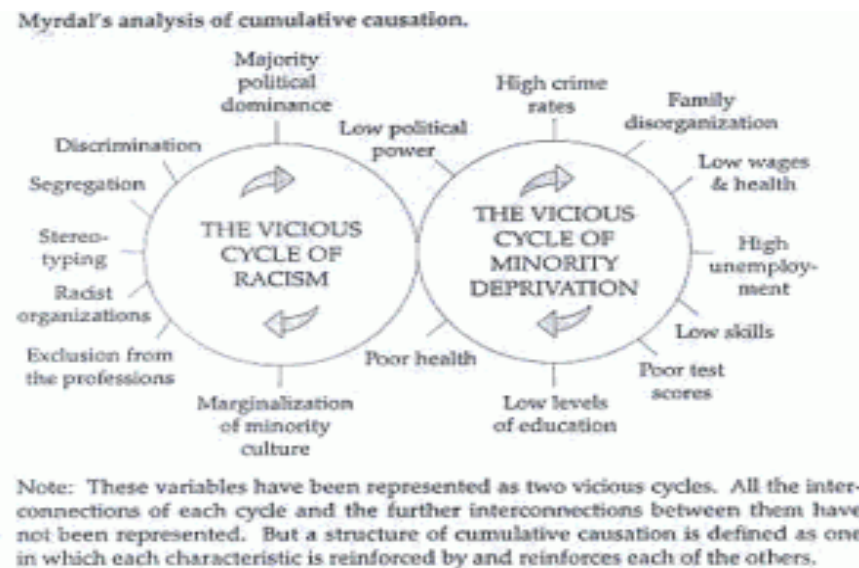


If center and core are in semi-colonial relationship with the periphery, then such development programmes which provide for more complementarity, integration and linkages are called for. All efforts are to be geared towards ending socio-economic dualism in development in less developed countries. Myrdal wants far reaching institutional reforms that should bring the benefits of planning to the masses.

He recommended strategy of balanced regional development i.e. "Doing everything, everywhere". He suggested government intervention in market mechanism as free-play will result in inequalities and disparities. This model combines national and international forces which tend to keep backward countries in the morass of cumulative process where poverty becomes its own cause.



Though not a communist he proved that the so-called competitive markets instead of solving the problem of backward region it would accentuate them. Myrdal these have made important contributions to the theories of convergence and divergence, agglomeration and locational economies and the theory of vicious circle. He was in support of balanced growth and wanted it to be initiated, directed and sustained by government.



#### CRITICAL EVALUATION:

1. This model combines national and international forces which tend to keep backward countries in cumulative process where poverty becomes its own cause.
2. Made important contributions to the theories of convergence and divergence, agglomerations and locational economies and the theory of vicious circle.
3. He was in support of balanced growth and wanted it to be initiated, directed and sustained by government and supported the theory of SPONSORED GROWTH.
4. Criticized regarding the "accidental factors" as the only factors which start the growth process.
5. There are setbacks in developing regions and there can be development in vicious circle region.
6. The agglomerating factors can also bring decreasing returns when diseconomies overcome the economies.
7. Free play of market forces and unhampered trade have tended to cramp the export potential of such countries creating a GREAT GAP.