MYRDAL'S THEORY OF CIRCULAR AND CUMULATIVE CAUSATION

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In his book entitled 'Economic Theory and Underdeveloped Countries' published in the year 1957, Prof. Gunnar Myrdal developed his theory of circular and cumulative causation. The theory is based on geographical dualism. It explains the reasons for international inequalities, i.e., inequalities between countries, and the regional inequalities, i.e., inequalities between regions within a country. According to him, the richer regions tend to become richer and the poorer regions tend to become poorer due to the occurrence of circular and cumulative causation process. Thus, the inequalities between the regions get widened in course of time. According to Myrdal, there are two reasons for widening inequalities: backwash effects and spread effects. If government does not intervene in the development process the backwash effects become stronger than the spread effects in underdeveloped countries. This will cause inequality to diverge further from the stable equilibrium rather than converging to it.

Myrdal was critical about the Neo-classical assumption of stable equilibrium in a market economy achieved through the self-adjustment process. Assuming a stable equilibrium, the neo-classical economists established that economic development leads to convergence to the stable equilibrium and the inequality gets narrowed down. For example, Lewis theory explained wage rate converging to the equilibrium level leads to stable equilibrium between the rural subsistence sector and the urban modern sector.

Further, Myrdal points out the deficiency in the neo-classical models, saying that the models ignore the non-economic factors in the development process. According to him, the non-economic factors are among the main vehicles for the circular causation in the cumulative process of economic change.

The Myrdal's Thesis

Myrdal's thesis is about circular and cumulative causation. Circular causation means that economic development causes a circular process. This interpretation is similar to the vicious circle of poverty. This means backward features cause backward features, i.e., poverty causes poverty. The term 'cumulative causation' means that the backward features becomes cumulative. That means they aggravate further. Thus, the theory of circular and cumulative causation reveals that the backward features cause backward features and they aggravate further in course of time. This happens through the process of development. In his theory, he explains how this occurs by explaining the 'backwash effects' and the 'spread effects'.

Backwash effects are the negative or adverse effects of economic development of a locality upon other localities. This is explained through the changes as a result of economic development, such as, migration, capital movements and trade.

On the other hand, spread effects are the positive effects of development of one region upon the other regions.

For Myrdal, the main cause of widening inequalities between developed and underdeveloped regions is the strong backwash effects and weak spread effects in the underdeveloped regions due to economic development taking place in the developed regions. Myrdal examined these two effects to show how regional and international inequalities occur.

REGIONAL INEQUALITIES:

Under free market capitalism where there is no government intervention, profit motive governs the economic activities. The regions where expectations of profit are high develop fast and the regions where the expectations of profit are low remain underdeveloped. That means, the production activities and the development of infrastructure concentrate in the developed regions while the underdeveloped regions continue to remain backward. This happens due to the working of the backwash effects and the spread effects. The backwash effects work via migration, capital movement and trade causing inequalities to widen further.

The localities where economic activities are expanding attract migration of young talents from the underdeveloped regions. This is what is called 'brain drain'. This process will dampen or depress the economic activities in the underdeveloped regions.

Secondly, there shall be capital movement from the backward to the developed region. This is due to expected higher return from investment in the developed region. It produces adverse impact on the underdeveloped regions because production will be hampered there. On the other hand, the increase in investment in the developed region will cause increase in income and demand there. Hence, it will flourish.

Thirdly, the backwash effects of trade also widen inequalities further. The development of industries in the developed regions may ruin the existing industries in the backward regions. Consequently, the backward regions may become agricultural. For example, development of modern industries in industrial centres has ruined the handicraft industries in the backward regions.

The Spread Effects: The spread effects occur in terms of increasing demand for agricultural output from the backward regions to be used as raw materials for the growing industries in the industrial centres and the there shall be increase in supply of consumer goods to the backward regions. Thus, the benefits of development shall spread to the periphery.

According to Myrdal the equilibrium between backwash and spread effects is not possible. He quotes from a study by United Nations Commission for Europe to support this statement. That, regional inequalities are wider in the poorer than in the richer countries; and, the regional inequalities are increasing in the poorer countries and diminishing in the richer countries. Myrdal says that diminishing inequalities is due to stronger spread effects because the higher levels of economic and social infrastructure in the developed regions can help overcoming all obstacles coming in the way of backwash effects. As a result, development becomes an automatic process once a country reaches high levels of development. On the contrary, in the underdeveloped countries backwash effects are stronger which create obstacles to development and the inequality is widened.

The role of the State: The role of the state is to weaken the backwash effects of development of developed regions upon the backward regions through appropriate policies. Following and strengthening the laissez-faire policy shall be harmful for the underdeveloped countries.

II. INTERNATIONAL INEQUALITIES

According to Myrdal international trade may have strong backwash effects on the underdeveloped countries. Thus, if there is absence of government intervention or, say, if trade is unhampered, it makes developed countries richer and poor countries poorer. The rich countries with their developed manufacturing sector create strong spread effects by exporting industrial products at cheap rates for which the handicraft sector becomes ruined. Moreover, they make the poor countries mere suppliers of primary products as raw materials. The poor countries suffer from adverse balance of payments crisis.

Capital movement from the poor countries to the rich countries also shall occur due to better investment climate in the rich countries. In the rich countries, the policies favour the investors. When capital flows to underdeveloped countries from the rich countries it is simply for the reason of producing primary products so that they could be imported to the rich countries to support the manufacturing industries as happened during colonial rule. Thus, it produces backwash effects upon the underdeveloped countries. These are the causes for widening inequalities between the rich and poor countries.

To conclude, Myrdal’s theory is a beautiful explanation of why poverty aggravates the situation of poverty of the underdeveloped countries. It cannot be denied that the backwash effects are stronger than the spread effects in the underdeveloped countries. Hence, it is natural that the gap between the rich and poor countries is gradually widened.