

**CUMULATIVE
CAUSATION THEORY
BY GUNNAR MYRDAL**



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Karl Gunnar Myrdal (6 December 1898 – 17 May 1987)

GUNNAR MYRDAL

- Karl Gunnar Myrdal was born in Gustafs, Sweden.
- 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.

- In 1938, the Carnegie Corporation of New York commissioned him to conduct a study on the American Negro predicament. The material which he gathered and interpreted was published in 1944 as the landmark book "An American Dilemma: The Negro Problem and Modern Democracy".
- Professor Mrydal has received more than **thirty awards** in his lifetime. 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'.

INTRODUCTION

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 underdeveloped countries.

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.

CIRCULAR 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.

Prof. Myrdal is well-known for some of his theses, the main of which are :-

- ✓ The theory of backwash effect of international trade,
- ✓ The cumulative causation theory of economic development, and
- ✓ The institutional reforms theory of development.

In the first two theories the causes of vicious circle of backwardness have been analyzed while in third we find some explicit suggestions for the development of less developed countries.

BACKWASH EFFECT OF INTERNATIONAL TRADE (SPREAD EFFECT THEORY)

- 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.

*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.

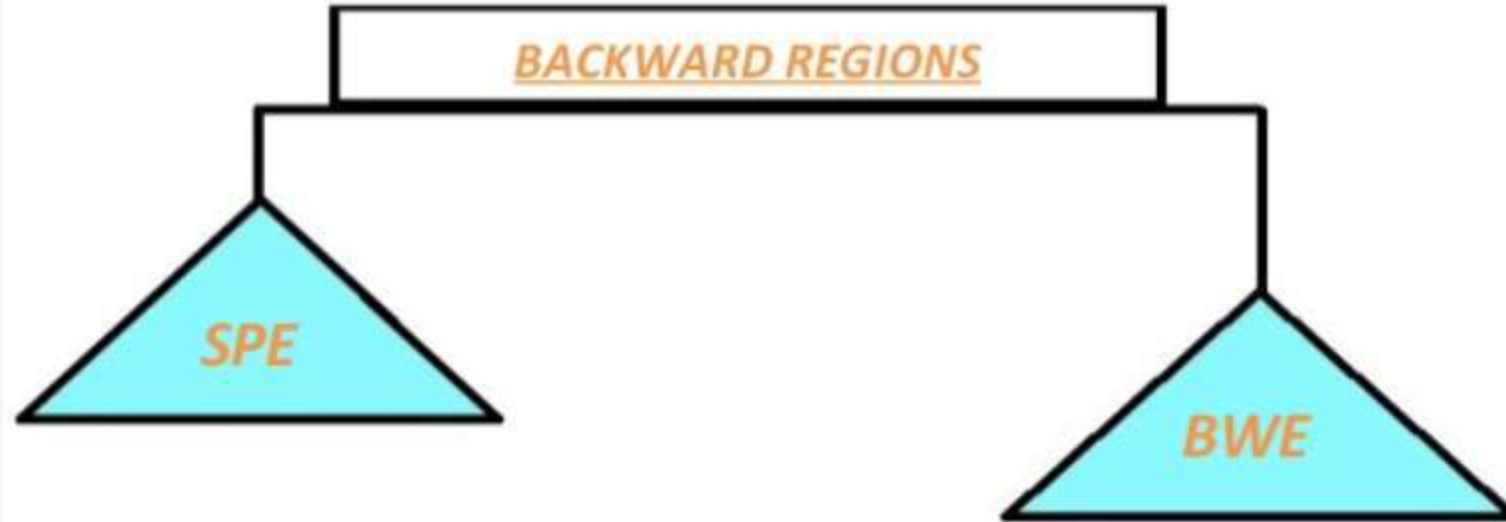
- ❖ SPE continued to become stronger in developed countries while BWE continued to become even more spread in backward countries

The two effects are never in equilibrium

Condition 1 :-



Condition 2:-

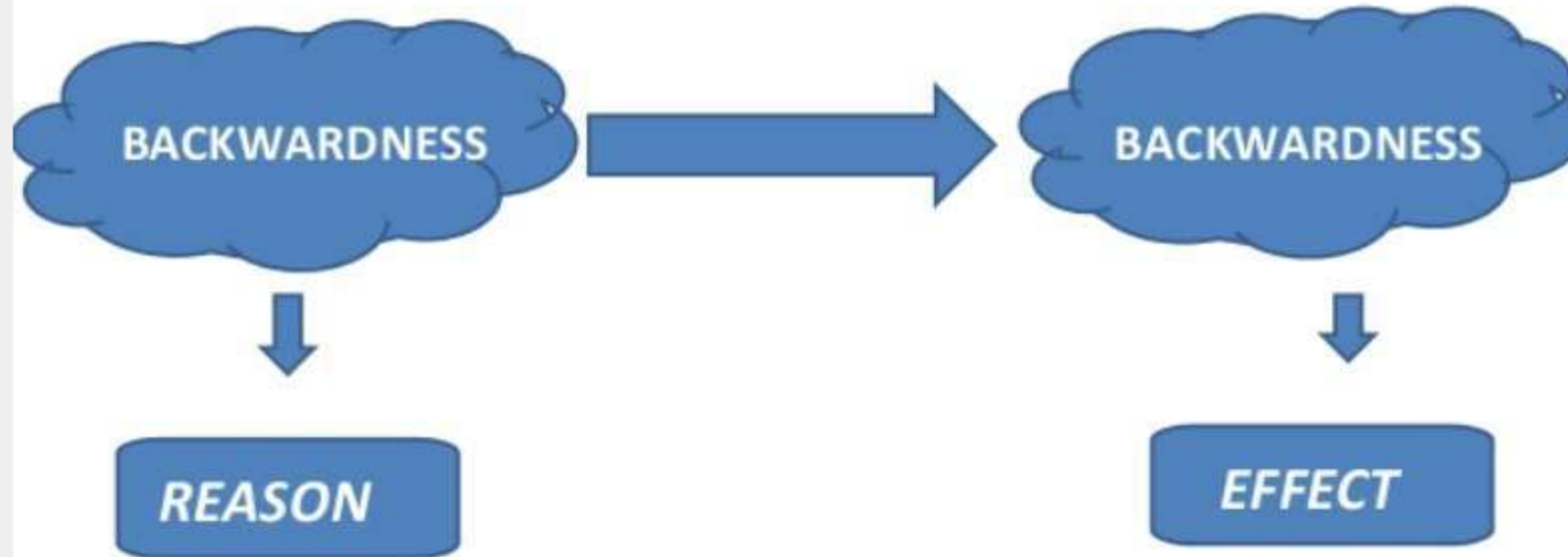


➤ There were some SPE from nodal regions to the hinterland. The hinterland supplies raw material, labour, etc. to the centres of development and in turn receive consumer goods and services. However, **these SPE never helped in self-expansion process in rural areas.**

CUMULATIVE CAUSATION THEORY OF ECONOMIC DEVELOPMENT

- The cumulative causation action has been built upon SPE and BWE.
- The theory emphasizes that “**poverty is further perpetuated by poverty**” (BWE>SPE) and “**affluence is further promoted by affluence**” (SPE>BWE).
- **In backward regions problem creates more problems, in developed regions auto solutions solve all problems.**

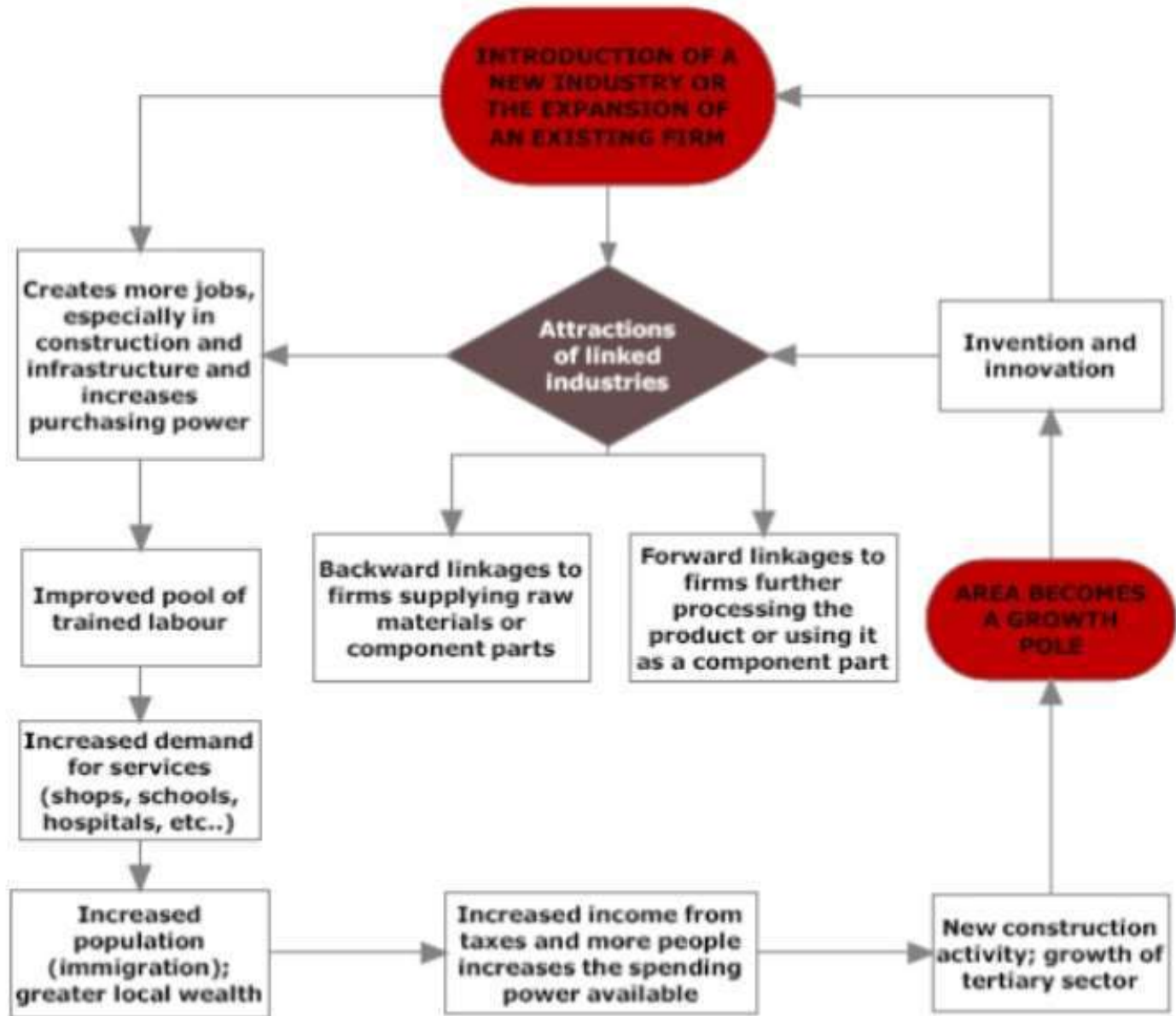
➤ Under such situations cause becomes its own effect.

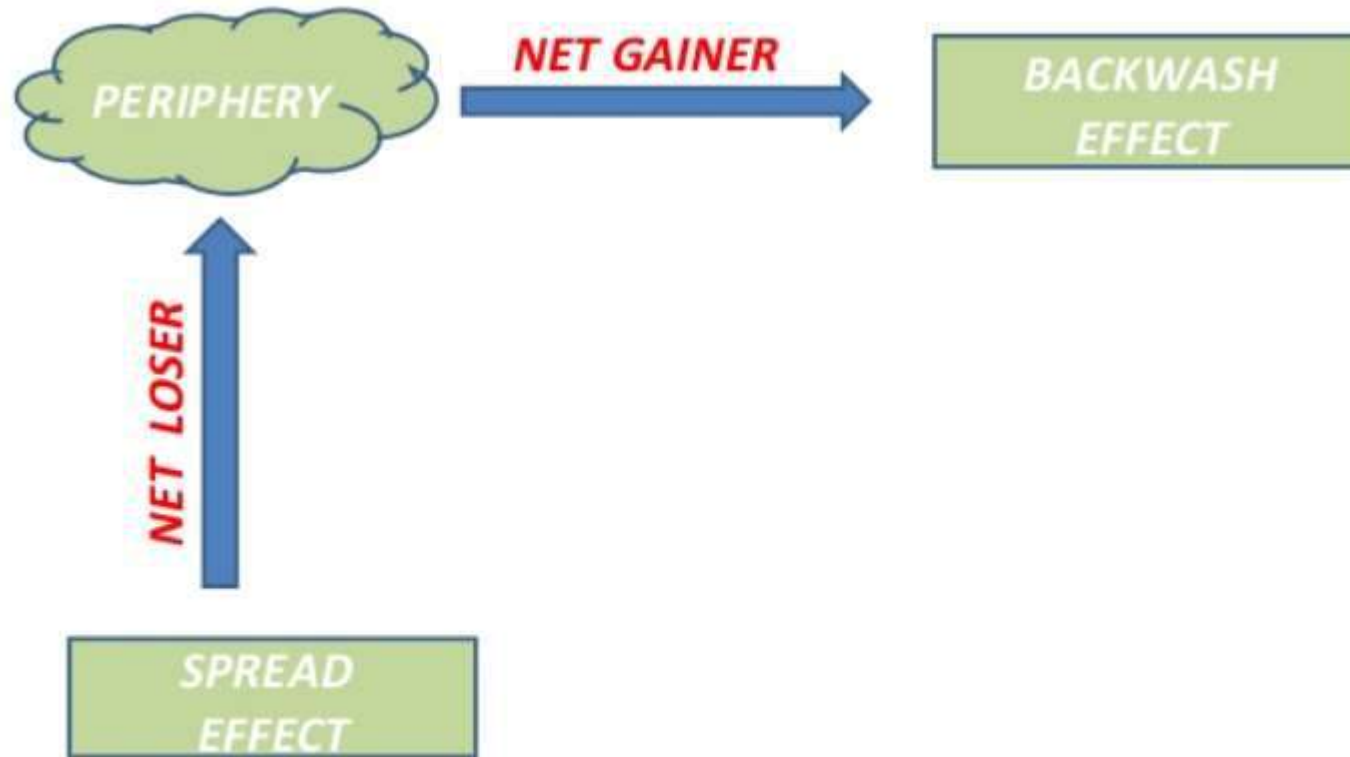


➤ ***A REGION IS BACKWARD BECAUSE IT IS BACKWARD.***

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.





➤ The process of cumulative causation starts accidentally due to *momentum of an early start* or *just by chance*.

Cumulative Causation Theory proves :-

- ✓ Market mechanism will not bring equality between regions but will increase inequalities.
- ✓ Nothing short of government intervention will check BWE from getting cumulative.

The theory is center periphery model :-

The favourable effects flow from center to periphery. Periphery supplies raw material and human power to center.

Center supplies finished output for consumption and input.

INSTITUTIONAL REFORMS

THEORY OF DEVELOPMENT

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

❑ If center and core are in semi-colonial relationship with the periphery, then such development programmes which provide for more **complimentarity, 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.

CRITICAL EVALUATION

- 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. He was a strong supporter of the theory of SPONSORED GROWTH.

▪ The analysis part of Myrdal's writings is found to be much more satisfactory than the recommendatory part.

▪ The theory has been criticized regarding "accidental factors" as the only factors which start the growth process.

- There are setbacks in developing regions and there can be development in vicious circle region.
- The agglomerating factors (same factors which Myrdal emphasized on) can also bring decreasing returns when diseconomies overcome the economies.
- It can also be argued that even market mechanism can reduce inequalities and disparities between two regions.

THANK YOU