

## 7. Myrdal, growth processes and equilibrium theories

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### 7.1. INTRODUCTION

It is generally recognised that Myrdal's work on development and underdevelopment made three important contributions. He proposed a cumulative causation approach in opposition to the dominant one, which he called the stable equilibrium approach. He pointed out that analyses of development processes, which only focus on economic factors, are irrelevant and misleading because historical, institutional, social and cultural factors also matter. He disputed the existence of a body of economic thought that is 'objective' in the sense that it is value-free.

This chapter confirms the views expressed by the literature, clarifying some aspects of Myrdal's position that have not been sufficiently explored. Moreover, it points out the existence of a contribution to another point, which the literature has broadly overlooked,<sup>1</sup> namely the fact that he criticised the logical consistency of the dominant theories, stating that they were based on unsatisfactory assumptions regarding the characterisation of individual preferences. These assumptions were the heritage of utilitarian moral philosophy and rationalist psychology, which at the beginning of the 20th century the other social sciences had abandoned.

Myrdal himself stated that in *The Political Element in the Development of Economic Theory* (1930) he had focused on the subjective element of the neoclassical theory to criticise its logical consistency, that is 'to demonstrate that certain practices of reasoning common in economics were logically defective' (Myrdal, 1958, p. 237).<sup>2</sup> Yet, those who assessed his contributions (see Lundberg, 1984; Reynolds, 1984; Kindleberger, 1987; Streeten, 1987, 1992; Angresano 1997; Pressman 1999) only refer to the attempts to argue that his theoretical approach is more realistic than the dominant one and to his methodological critique on the existence of an 'objective' body of economic theory. Apart from Palsson Syll (1998), who examines the links between Myrdal's early writings and those of some authors of the Swedish

school, the works considering his specific writings follow a similar line. Reviews by Hicks (1954), Hutchison (1954), Machlup (1955), and Ward (1955), written when *The Political Element in the Development of Economic Theory* was published in English, state that the discussion of the surreptitious introduction of value judgements in the analysis of economic problems is the core of Myrdal's position. Hicks (1954, p. 794) also acknowledged that Myrdal extended the rejection of cardinal utility into a more thoroughgoing rejection of subjective theories altogether, but did not deal with his arguments on this point and concluded that the Swedish economist had changed his mind on it. The review of *Against the Stream*, written by Eatwell (1974), claimed that Myrdal's position is weak because he only raises questions of realism and methodological arguments against the neoclassical theory, whereas a critique of its logical consistency, like that submitted by Sraffa (1960), is necessary to make an impact upon the literature.

By recalling his positions, including those aspects that the literature has not sufficiently underlined, and pointing out the existence of an analytical critique against the dominant approach, our chapter argues that Myrdal's writings are still important to appraise some recent trends in the literature on growth, to appreciate why some views with poor foundations may sometimes prevail in society and in research, and to underline some limits to the dominant theoretical approach. These limits are again at the centre of scientific research, which is exploring new ways to eliminate them (Camerer et al., 2005; McFadden, 2006).

The chapter is organized as follows. Section 7.2 outlines the main features of Myrdal's approach, pointing out the elements adopted and those ignored by the recent dominant literature on growth. Section 7.3 presents his critical arguments against the stable equilibrium approach, emphasising those overlooked by the literature, in order to argue that they are still important to appreciate why some poorly-grounded views may prevail in society and in research, and to evaluate some limits of the dominant theoretical approach. Section 7.4 presents some conclusions.

## 7.2. DEVELOPMENT PROCESSES AND CUMULATIVE CAUSATION

In the preface to his *Economic Theory and Underdeveloped Regions* Myrdal wrote that 'the argument moves on a general and methodological plane in the sense that the theory is discussed as a complex of broad structures of thought' (Myrdal, 1957, p. vii). His aim was to submit 'broad generalisations, as a 'theory' is permitted to be, (in order to) grasp the social facts as they organize themselves into a pattern when viewed under a bird's-

eye perspective' (ibid., p. 41). Into this general vision, the specific characteristics of the development process of every economy can be easily fitted.<sup>3</sup> Yet, the provision of data or other information regarding single economies was beyond the scope of his work.<sup>4</sup>

Myrdal (1957) used the expressions 'approach', 'theory' and 'general theory' as synonyms. In his subsequent writings, however, he mainly referred to 'approach', defining it as something containing, among other things, theories. He wrote that by this term he meant a collection of devices, like 'the concepts, models, and theories we use, and the way in which we select and arrange observations and present the results of our research' (Myrdal, 1970, p. 49).

As Angresano (1997, pp. 41–2) points out, Myrdal called for economists to proceed by confronting the 'facts of life' with theories. They should form a realistic conception of the economic processes by adopting a 'common-sense element' in their research (Myrdal, 1939, p. 213). This conception, derived from inductive methods, should then be compared with the views coming from the abstract, metaphysical concepts of deductive methods (Myrdal, 1939, pp. 136–46, 212–13). The relation between theory and facts is however not simple.

Theory ... must always be *a priori* to the observations of facts. Indeed, facts as part of scientific knowledge have no existence outside such a frame. ... If theory is thus *a priori*, it is, on the other hand, a first principle of science that facts are sovereign. Theory is, in other words, never more than a hypothesis. When the observations of facts do not agree with a theory, i.e. when they do not make sense in the frame of the theory utilised in carrying out the research, the theory has to be discarded and replaced by another one which promises a better fit (Myrdal, 1957, p. 160).

Dealing with development processes, Myrdal (1957, pp. vi and 39) moved from the belief<sup>5</sup> that reality shows that inequalities within the same economy or among different economies tend to persist and increase. These 'facts of life', he said, represented at the time a fundamental cause of international tensions. Yet, they were not at centre stage in most of the literature on development, which was dominated by the belief that the operation of competitive market forces tends to eliminate inequalities and to bring about movements towards equilibrium positions that are characterized by the efficient allocation of the available resources and the exploitation of the growth potential of the economy.

In order to reconcile his view of reality with theory Myrdal proposed a cumulative causation approach, which he considered at variance with the stable equilibrium one used by much of the contemporary literature (Myrdal, 1957, p. 19). He first conceived these positions in the 1940s, dealing with the conditions of the Afro-American community in the USA. He had started to

examine this problem by identifying the economic factors responsible for the complex phenomena that characterized the life of that community (social exclusion, racial discrimination, low income, low level of education, limited professional opportunities, disorderly conduct, crime, unstable family relations, dirty appearance, slum dwellings, health deficiencies, and so on). The further he proceeded with this study, however, the more he realised that, owing to the intricate nature of the phenomena described, the approach used by economists was inadequate to study the evolution of social processes and concluded that the distinction to make, in order to analyse them, is that between more and less relevant factors, rather than that between economic and non-economic factors.

His work (Myrdal, 1944) on the conditions of the Afro-American community pointed out that the prejudice of the white population and the low plane of living of the black population were the two most evident elements at work. Both had a composite nature, being influenced by economic, psychological, social and cultural factors. What is more, all these factors were so inextricably interwoven as to make it possible to think of each one of them as the cause of the others.

The stable equilibrium approach saw the poor situation of the Afro-American community as the result of counteracting forces pushing towards an equilibrium point, as if in the life of the community there were a tendency to move towards a 'necessary' or 'natural' position. Myrdal (1957, pp. 16–17) instead thought that the forces at work do not push towards an equilibrium point; on the contrary, owing to their close inter-connection, *variations* in some of them make the others change and push in the same direction, generating further interactions and a cumulative process. There is nothing stable, necessary or natural about the situation of the Afro-American community that can be modified by applying policies, which are able to generate the right cumulative changes in the economic and non-economic forces at work.<sup>6</sup>

In the subsequent years, working specifically on development problems, Myrdal elaborated further the perceptions he had achieved in the 1940s. First of all, in order to argue in favour of the adoption of his approach, he clarified that it makes different assumptions from that of stable equilibrium on what can be considered the most important forces guiding the evolution of social processes. These forces characterise the dynamics of these processes in two diverse ways.

The notion of stable equilibrium is normally a false analogy to choose when constructing a theory to explain the changes in a social system. What is wrong with the stable equilibrium assumption as applied to social reality is the very idea that a social process follows a direction – though it might move towards it in a circuitous way – towards a position which in some sense or other can be described

as a state of equilibrium between forces. Behind this idea is another and still more basic assumption, namely that a change will regularly call forth a reaction in the system in the form of changes which on the whole go in the opposite direction to the first change.

The idea I want to expound in this book is that, on the contrary, in the normal case there is no such a tendency towards automatic self-stabilisation in the social system. The system is by itself not moving towards any sort of balance between forces, but is constantly on the move away from such a situation. In the normal case a change does not call forth countervailing changes but, instead, supporting changes, which move the system in the same direction as the first change but much further. Because of such circular causation as a social process tends to become cumulative and often gather speed at an accelerating rate (Myrdal, 1957, pp. 12–13).

Secondly, he challenged the content of much economic literature, particularly that using the stable equilibrium approach, which regards it as reasonable to construct a theoretical approach for the analysis of development processes that focuses on the interaction among ‘economic factors’ and abstracts from what happens to ‘non-economic factors’. The assumption that changes in the latter are irrelevant, he believed, is untenable, because their reaction to economic events tends to intensify the disequilibrating influences at work. On account of this view, he argued that ‘economic theory will have to deal with all the relevant factors if it wants to be realistic; general economic analysis will have to become social theory’ (Myrdal, 1957, p. 100).

Myrdal’s stance in favour of economics as a social theory implied a rejection neither of the use of mathematics and econometrics to improve knowledge, nor of the analytical results of economic theory. As to the possibility of improving the state of knowledge on the evolution of social processes through mathematical instruments, he encouraged research in this field to overcome the limits of these tools:

Ideally the scientific solution of a problem like the Negro problem should thus be postulated in the form of an interconnected set of quantitative equations, describing the movement – and the internal changes – of the system studied under the various influences which are at work. That this complete, quantitative and truly scientific formulation is far beyond the horizon does not need to be pointed out; but in principle it could be made, and I submit that the working out of such a complete and quantitative solution should be the aim of our research endeavours even when they have to stop far from the ideal (Myrdal, 1957, p. 19).

As to econometrics, he doubted that it could provide an empirical verification of a general theory, but considered the application of econometric methods profitable, provided that they moved within the

guidelines of such a theory and were used to deal with circumscribed problems.

Let me also add that I have no illusions that it will ever be possible to fit such a general theory into a neat econometric model. The relevant variables and the relevant relations between them are too many to permit that sort of heroic simplification. This does not mean, however, that particular problems could not with advantage be treated in this way – provided that the variables and assumptions were selected on the basis of such insight into essential facts and relations as only a general theory can furnish (Myrdal, 1957, p. 101).

As to the achievements of economic theory, including those based on the notion of equilibrium, he considered them almost indispensable to examine several problems.

To the credit of (the stable equilibrium) assumption can be counted that it represents an easily available theoretical means to comprehend and demonstrate in a simple manner the universal inter-dependence between all the factors in the economic system. It constitutes also an almost indispensable logical step in many economic arguments (Myrdal, 1957, p. 9).

One should not disregard, however, that the analytical models producing these results imply valuations of the subject studied. As will be seen in the next section, the intrusion of valuations can occur in different ways, even through the decisions regarding the approach to be used, because the founding of an approach is in general related to the attempt to establish a preconceived view and leads to the formulation of analyses that privilege the relevance of certain forces, playing down others. The intrusion of value judgements in research thus raises problems of ‘objectivity’.

To describe the merits of his approach, Myrdal dealt with several aspects of development processes. This part of his investigation shows the acceptance of economic analysis derived from equilibrium theories and appears closer to the Keynesian tradition than to the neoclassical one.

In the first place, Myrdal (1957, pp. 23–30) dealt with the effects of closing down certain lines of production. He based his analysis on the multiplier, which draws attention to cumulative reductions in output and demand,<sup>7</sup> and played down the idea that the idleness of the factors of production can bring about variations in their prices able to restore full employment. Moreover, he argued that the changes produced by the multiplier tend to influence non-economic factors too, affecting the social stability of the community, its level of security, health, education, and so on. This interaction between economic and non-economic factors further reinforces the tendencies at work and confirms the cumulative character of the process.

In the subsequent discussion of the elements affecting development processes, Myrdal (1957, pp. 31–8) pointed out that there are always counteracting forces at work, but that, in his opinion, those promoting cumulative causation tend to prevail, above all in less developed countries. He discussed the existence of ‘backwash’ and ‘spread’ effects. The former produce a tendency to concentrate economic activities in certain areas, leaving the others in poor conditions. Most economic activities and, in connection with that, most forms of high culture, like art, literature, science, education, and so on, flourish where there is already a high degree of development. These areas can afford better infrastructures and services for the firms and the population: they thus attract entrepreneurs, skilled workers and new initiatives. In general, he said, economic initiatives are more attracted by the advanced environment of a rich country than by the low wages of the poor ones: it is the workforce that tends to move towards economic activity rather than vice-versa. This is the rule, he said, although there are forces working in the opposite direction.

The spread effects tend to extend economic activities to new areas. They are mainly due to congestion and the high wages and rents of developed areas. According to Myrdal (1957, pp. 31–3), these effects are stronger in rich than in poor countries and the areas benefiting from them are those adjacent to the highly developed ones. His opinion was that backwash effects tend to dominate over spread effects, particularly in less developed economies. Thus, although there are always counteracting forces tending to produce conditions of equality – and Myrdal (1957, pp. 35–7) gave some examples of them – for him the overall tendency is towards increased inequality.

This conclusion put at the centre of the stage the role of the State, which he examined in detail together with that of international relations, that is international trade, cooperation and politics.<sup>8</sup> According to Myrdal, modern and integrated nation states have learnt how to oppose the blind operation of these forces and have endowed themselves with a set of different measures able to neutralise the undesired effects of cumulative causation and prevent the rise of inequality (Myrdal, 1957, p. 41). For him, the emergence of a new role for the State has been the result of a long historical process, which has transformed the old ‘Oppressor State’ into a ‘Welfare State’. During this process there has been continuous interaction among economic growth, increased democracy, social and political reforms, State intervention, improved social and economic conditions, and so on.

By recalling historical experience, Myrdal claimed that egalitarian policies have been implemented to a greater extent in richer than in poorer countries. This difference is due partly to the high cost of these policies and partly to the social and political conditions of the poorer countries, where

built-in feudal and other non-egalitarian institutions and power structures tend to prevail.

Egalitarian policies therefore meet with greater difficulties in a poorer country, although it needs them more because the weakness of the spread effects has created greater inequalities. This is yet another example of circular causation in the cumulative process: again 'poverty becomes its own cause' (Myrdal, 1957, p. 40).

For Myrdal, then, the State and the other political institutions may contribute to the persistence of poverty, because their behaviour reflects the current organization of society, with those holding power having an interest in its perpetuation, and is path dependent.<sup>9</sup> The State and the institutional structures may thus be unable to solve satisfactorily the coordination problems that produce higher growth.

In richer countries, on the other hand, the positive interaction among development, equality and democracy has produced valuable results. Economic progress has made people better off and has provided greater security for everybody. This has strengthened the ideal of rational generosity of the community, making people 'feel freer to give up privileges, and to let down barriers which keep others out and ... more prepared to carry the costs of common burdens' (Myrdal, 1957, p. 40). The intensification of egalitarian policies has raised the level of education of the population and has thus provided a firmer basis for democracy, which, in turn, has led governments to act more consistently in favour of the general interest. This kind of political behaviour, in turn, has promoted economic development and has thus given a further drive to the whole process.

Myrdal's description of these events reflects the positive trends of the richer economies and the cultural and political climate of those years. It accurately represents the hopes and the achievements of that period, but may appear out-of-date in the light of more recent historical experience and subsequent theoretical elaborations. Some richer countries, Myrdal (1957, p. 47) said, have arrived at a situation in which large inequalities have been nearly eliminated and the opportunities for the new-born have become more and more equal. Their policies have been able to integrate the interests of different groups and regions and generate a harmony of individual interests, which

is, however, not the old harmony of natural law, utilitarianism and the economic equilibrium theory, brought about by natural forces in the market. It is to a large extent a 'created harmony', created through policy interferences by organised society with the operation of market forces which, if left to themselves, would have led to disharmony (Myrdal, 1957, pp. 48-9).

This statement confirms that for Myrdal a government able to amalgamate the different interests emerging in a country has a positive role to play and highlights his disagreement with the practical and theoretical positions of the stable equilibrium approach, which, according to him, are rooted in old philosophies with a preconceived view of the world.

His stance in favour of State intervention was not so naïve as to fail to appreciate the problems coming from the management of fiscal policy. His experience with the Swedish Government made him notice that the same self-interest which drives markets inevitably leads, in the political sphere, to pressures on fiscal policy decisions which aim to affect income distribution. Kindleberger (1987, p. 402) and Angresano (1997, pp. 72–3) recall Samuelson's opinion that Myrdal's analysis of these problems, published in the *Manchester School* in 1951, anticipated the views proposed by Olson and Buchanan. Myrdal thus soon became aware of the difficulties related to the dimension of the Government budget and of the fact that attempts to pursue, through policy interventions, constant growth and a more just society make it necessary to find solutions to ever more complex problems.

To sum up, Myrdal proposed a view of development processes in which the economies are seen as 'social organisms' that, through experience, can acquire a greater ability to solve increasingly complex collective problems. Within this view, the influence of economic forces is as relevant as that of social and political forces. What is important is that intense relations and connections are established among the individuals and the institutions belonging to the economy to make it possible to identify common problems and formulate strategies for their solution. As a consequence, elements like social cohesion and integration, reciprocal confidence, rule of law, democracy and education contribute in an important way to the successful working of these processes. This view led Myrdal to consider economic theory as a social theory and to become the major representative of the institutionalist school after World War II. The characteristics he gave to his approach, however, have not become dominant in the economic literature. Nonetheless, the 'New Growth Theories', which have dominated since the 1980s, have adopted the two starting points of his work, that is the relevance of non-economic factors and the persistence of inequality (see Helpman, 2004, pp. xi and 15). They have often elaborated these points within a stable equilibrium approach, generating, in many cases, analyses and interpretations that, unlike those of Myrdal, do not see the circular and cumulative interactions among economic and non-economic forces as the mechanism that generates persistent and increasing inequality and that makes policy interventions inevitable. Yet part of this literature has taken a different line, pointing out that the analyses may show the existence of multiple equilibria and poverty traps (for a review, see Azariadis and Stachurski, 2005). In this

way it has elaborated analytical models where externalities and other forms of market imperfections may produce self-reinforcing mechanisms, which prevent higher growth. This literature has attributed an important role to history and the working of institutions and has argued that the latter may perpetuate inefficiencies. These arguments have mainly been proposed in a descriptive way, sometimes making reference to experimental analyses, in which social interactions among a limited number of people are examined to show the emergence of 'herd effects' or of other forms of behaviour induced by bounded rationality (see Azariadis and Stachurski, 2005, pp. 301–2 and 328–9). Thus, like Myrdal, this literature has complemented analytical results on the existence and stability of equilibria with historical descriptions of self-reinforcing mechanisms.<sup>10</sup> It has not considered the same problems taken into account by Myrdal, for example those generated by autonomous changes in effective demand or those related to the use of a subjective and non-observable notion, like that of utility. Yet it has made it possible to envisage some degree of compatibility with the evolutionary approach of the Swedish economist.

### 7.3. THREE ARGUMENTS AGAINST THE NEOCLASSICAL STABLE EQUILIBRIUM APPROACH

To gather consensus for his approach, in Part I of *Economic Theory and Underdevelopment Regions* Myrdal tried to persuade the reader that his approach could offer more realistic interpretations of the economic and social processes than those provided by the dominant one, showing that he considered the quality of an approach to depend upon its realism. Yet he did not want to rely only on the question of realism and, in Part II of his book (1957, pp. 107–64), he tried to undermine the stable equilibrium approach by arguing that it lacked the kind of scientific objectivity that was often attributed to it and that its general equilibrium and welfare theories were based on some unsatisfactory assumptions.

The issue of objectivity in social research, which, according to Dobb (1973, p. 1), attracted a great deal of attention in the 1960s and early 1970s, has always been central to Myrdal's writings.<sup>11</sup> His position shared several elements with those of Heilbroner (1971, 1973) and Dobb (1973) and was opposed by Solow (1971) in an attempt to defend the neoclassical approach. Solow's essay, written in response to Heilbroner (1971), also examined the views of other authors, taking explicitly into account some arguments raised by Myrdal (1970).

In his review of the literature on the role of ideological elements in economic and social research, Dobb (1973) presents the clearest exposition of the debate on this subject by distinguishing three positions. The first presumes that there is a consistent objective body of economic thought, which represents the scientific core of the discipline and in which valuations are absent. Valuations are seen as an alien element in what should be designed as an objective or 'positive' enquiry. This alien element, 'although inevitably encroaching upon most people's thinking about practical affairs, deserves to be purged by some rigorous analysis and precise definition' (Dobb, 1973, p. 2).

The second position, attributed to Schumpeter, considers valuations as a necessary starting point of any theory, a sort of pre-analytical cognitive act that inevitably affects the formation of theories. Economic analysis, instead, is treated as independent of valuations and objective. It provides a 'box of tools' that can be used to elaborate alternative theoretical interpretations and policy prescriptions, according to the different value premises of the researcher (Dobb, 1973, pp. 3–4).

The third position considers economic analysis as a logical system designed to establish specific interpretations of economic phenomena. Its formation is related to these ideologically conditioned interpretations, in the sense that the attempts to establish them stimulate the formation of analytical structures that underline certain influences at work, playing down others. Consequently, economic analysis cannot be seen as 'supra-ideological'. It can be studied as a purely technical apparatus with a specific historical evolution, and this property enhances the tendency to consider it as a set of neutral tools. Yet, according to Dobb (1973, pp. 10–11), this neutral set has no ability to interpret economic processes and social behaviour. To give interpretative power to a formal structure, it is necessary to introduce other assumptions, which inevitably contain valuations. Moreover, in choosing one analytical structure in preference to another, the model-builder 'is laying emphasis upon certain factors and relationships and excluding others or casting them into the shadows' (*ibid.*, p. 7).

In *The Political Element in the Development of Economic Theory* (1930) Myrdal's position was close to that of Schumpeter. He claimed that there is a healthy body of positive economic analysis completely independent of valuations and that, by adding to that objective scientific knowledge different value premises, it is possible to infer alternative policy conclusions (Myrdal, 1970, p. 9).

In the subsequent years, however, he abandoned this view for one that was closer to the third position outlined by Dobb. He claimed that valuations can affect social research in various ways and at all stages of scientific work.

Valuations are thus necessarily involved already at the stage when we observe facts and carry on theoretical analysis, and not only at the stage when we draw political inferences from facts and valuations (Myrdal, 1970, p. 9).

The presence of ideological elements in many stages of the research activity was widely recognised. It was acknowledged that valuations are present in the underlining premises of any social research, when the relevance of the different problems is considered and the subject of research is chosen. It was also accepted that valuations affect the selection and organization of the data to be collected, the terminology used, the way in which unexpected and unwelcome evidence is treated, results are presented, and policy prescriptions are formulated. In his defence of the dominant approach Solow (1971, pp. 99–100) recognised the existence of biases in these parts of scientific work, stating that the problem of the existence of good and bad research can be solved by relying on the ability of the researcher to use correct procedures, that is to avoid tampering with data, to submit undesired evidence openly and fearlessly and to avoid promoting policy recommendations which lack supporting evidence on empirical and theoretical grounds.

Myrdal, however, like Heilbroner and Dobb, wanted to call attention to a controversial and less explored aspect of the problem, that is the presence of ideological elements in the formation of economic analysis and its use in the formulations of theoretical interpretations. These formulations establish causal relationships and, to do that, require the choice of analytical structures, which take into account the influence of certain forces and cast others in the shade, and the introduction of further assumptions, which inevitably have ideological content. For these reasons, scientific objectivity in social research cannot be achieved by producing 'value-free' economic theories, a work that Heilbroner (1973, p. 142) considered 'chimerical'. It can instead be achieved by duplicating the procedures of natural science, that is through transparency on methods and assumptions, openness to informed criticism and rejection of dogmas, of missing links in the chain of deduction and of unstated premises. For Myrdal, the presence of unstated premises in the analysis amounts to passing off value-laden conclusions as 'scientifically objective'.

Solow's defence of the dominant orthodoxy limited itself to denying the significance of these criticisms. He claimed that the problems related to the lack of objectivity that Myrdal had raised, if they exist, would have been solved by the ability of the scientific community to apply transparent procedures and to encourage and prize critical assessments of the most established views.

It may even be that perfectly value-free social science is impossible, though I regard that claim as unproven about the kind of work that has genuine claims to be

science. But suppose it is so. The proper response, I should think, would be to seek ways to make social science as nearly value-free as it is possible to be (and, of course, to be honest about the residue). The natural device for squeezing as much unacknowledged ideology as possible out of the subject is open professional criticism. Obviously, then, one must protect and encourage radical critics. I think that outsiders underrate the powerful discipline in favour of intellectual honesty that comes from the fact that there is a big professional payoff to anyone who conclusively shoots down a mandarin's ideas (Solow, 1971, p. 101).

Myrdal too believed that scientific work 'has a demonstrated power of self-healing' (1970, p. 40), but appraised this capacity within the wider problem of the role of science in society. On the one hand, he pointed out that scientific work is shaped by the existing traditions in our disciplines, by the economic, social, cultural and political environment in which we live, and by the personal make-ups of the researchers (Myrdal, 1970, pp. 3–4 and 43–4). On the other hand, he argued that scientific work increases knowledge, spreads education and thus purges false opinions and makes people's beliefs more rational (1970, p. 41). For these reasons, the self-healing capacity of scientific work must be seen as a process that is neither instantaneous nor thoroughgoing and that seldom occurs easily or completely (Myrdal 1970, p. 43). It can lead to different outcomes on the formation of the research interests and projects, of the dominant academic ideas and of 'popular beliefs'. Democracy, information and responsibility of social scientists for popular education improve the ability of society to come close to true knowledge. The lack of these elements, instead, hinders the self-healing capacity of scientific work. For instance, the lack of reliable statistics in underdeveloped countries puts the opportunity for the self-healing process in abeyance (see Myrdal, 1970, p. 46). The same thing can be said for the tendency, already in action in the 1960s, to abandon the great tradition in social science and economics to take responsibility for popular education. Too many scientists, Myrdal (1970, p. 41–2) said, were increasingly addressing only each other, abdicating the responsibility of forming public opinion and making people more rational. This trend of false scientism is worsened by the loss of the tradition to express reasoning as clearly as possible and by the tendency for social scientists to close themselves off by means of unnecessary and complex terminology, impairing their ability of even understanding one another. These aspects of Myrdal's work were overlooked by Solow, whose reply only considered some of the arguments raised by the Swedish economist, leaving other important ones hanging, which can contribute to understanding the complex evolution of research and why in certain historical periods (think of what happened during the Nazi period) some groundless views may prevail.

Myrdal's last argument against the neoclassical stable equilibrium approach regarded the use of a subjective and non-observable notion, like utility. He argued that, to derive theoretical interpretations from this notion, the neoclassical approach must introduce some assumptions on the behaviour of economic agents, which are a heritage of Bentham's utilitarian philosophy and which lack scientific foundations. Myrdal dealt with this argument in *The Political Element in the Development of Economic Theory*, which represents a first class contribution to the history of economic and social thought. He underlines the failures of several attempts made to provide scientific foundations for the notion of utility and, recalling some statements published by Wicksell in the 1901 Swedish edition of the first volume of *Lectures of Political Economy*, he shows that, at the beginning of the 20th century, the state of our knowledge was still unable to give satisfactory answers to these questions:

Perhaps someday the physiologists will succeed in isolating and evaluating the various human needs for bodily warmth, nourishment, variety, recreation, stimulation, ornament, harmony, etc., and thereby lay a rational foundation for the theory of consumption (Wicksell, [1901]1934, vol I, p. 43, quoted by Myrdal, 1930, p. 95 and 1970, p. 58)

According to Myrdal, this quotation reveals Wicksell's belief that sooner or later the neoclassical theories, based on the notion of utility, will be given the objective foundations that he considered lacking. Yet, in those years, following the contemporary psychological studies, social scientists turned away from the discredited hedonism introduced by Bentham. The work of economists, instead, "began trying to escape into innocent-sounding terminology in order to establish a realm of "pure economics"" (Myrdal, 1970, p. 88). Pareto paved the way for this attempt. Later on, according to Myrdal (1970, pp. 58–9), there was a proliferation of terminological innovation, which presented general equilibrium and welfare theories in a new form, that is through a new analytical language.<sup>12</sup> In spite of this kind of escapism, however, this body of neoclassical economic thought still incorporates

one version or another of the old, discredited rationalistic psychology and utilitarian moral philosophy. By implying them – as practical conclusions make evident that it does – it becomes unfounded and false (Myrdal, 1970, p. 59).

Myrdal's criticisms were again played down by Solow, whose reply amounted to denying that the dominant theories require the kind of scientific foundations which Wicksell and, in different ways, Myrdal were looking for. Solow focused on rational choice, identifying it with the individual's maximisation of his own benefits and taking this simple assumption of

human behaviour as generally acceptable regardless of what is stated by deeper and more complex psychological theories.

Utility theory is a prize example of a certain kind of economic theory. It sets out to be an abstract theory of rational choice, free of deep social institutions, applicable equally under capitalism and socialism. Naturally, it turns Freudians purple and sociologists green (Solow, 1971, p. 94).

Finally, Solow held it to be important that this part of economics, being a certified product of nineteenth century liberal individualism, respects individuals' judgements about their own welfare, whatever their origin, and preserves that nothing (not even the judgements of an educated elite) is put in their place (Solow, 1971, pp. 104–5).

On this point too, however, Solow's response failed to represent the content of Myrdal's position. The Swedish economist did not criticise the analysis of rational choice. In line with those holding the third position described by Dobb on the role of objectivity in social science, he considered analytical tools and formal language as empty tautologies, which, to acquire interpretative power, must be supplemented by additional hypotheses on the behaviour of economic agents or on the workings of the economic system. According to Myrdal, in order to elaborate theoretical interpretations and policy prescriptions, neoclassical theories must introduce some additional assumptions on the content of preferences, which imply particular characterisation of human psychology. His critique thus concerns the unsatisfactory nature of these assumptions and the fact that they re-introduce the discredited contents of Benthamite hedonism. Finally, there is no evidence that in his writings Myrdal was criticising 19th century liberal individualism. His preoccupation was instead to show that one aspect of that tradition, that is the use of *laissez-faire* policies, was based on the adoption of economic theories, which were presented as endowed with an indisputable scientific status. In his writings Myrdal showed instead that those theories, which are said to lend *laissez-faire* policies the mark of a 'natural necessity', had been moulded by the ideas of specific philosophical traditions that lacked solid scientific foundations.

By sticking to rational choice and to the merits of liberal individualism, Solow gave the defence of neoclassical theories a robust standpoint. In this case too, however, his defence failed to answer Myrdal's arguments. Neoclassical theories were not criticised by Myrdal for the analytical language they use, like that of rational choice, but for the content of their assumptions allowing, through that same language, the elaboration of theoretical interpretations and policy prescriptions.

#### 7.4. CONCLUSIONS

By examining Myrdal's writings we may discern a different conception of development processes from the neoclassical one: economies are seen as social organisms, which can acquire, through their workings, an improved ability to solve ever more complex collective problems and raise their social and economic level of development. This approach attributes equal importance to both economic and non-economic factors and recognises that elements like social cohesion and integration, reciprocal confidence, rule of law, democracy and education can contribute in an important way to the successful working of these processes.

For Myrdal economic theory is a social theory, a view that nowadays garners a limited consensus. Recent economic literature is dominated by the 'New Growth Theories' that, since the 1980s, have replaced the traditional neoclassical theory of growth proposed by Solow (1956). These 'New Growth Theories', like that of Solow, privilege formal over descriptive analyses. Nonetheless, they have adopted two elements that underlie Myrdal's work, acknowledging that the spontaneous operation of market forces does not tend to eliminate the inequality between rich and poor economies (see Helpman, 2004, p. 15), and attributing growing importance to the ability of non-economic factors to affect the growth potential of economies. The literature on the latter point is so recent as to be considered still under construction.

Economic and political institutions affect the incentives to accumulate and to innovate, and they also affect the ability of countries to accommodate change.

A recent surge of research on the effects of institutions and politics on economic growth has convincingly shown the importance of these elements of social structure. But as of now, we understand these channels of influence less well than some of the others discussed in this book. If I were to write this book five years from today, I probably would write the same book except for the chapter on institutions and politics, because I believe that much progress will be made in this area in the next few years (Helpman, 2004, p. xi).

Two important starting-points of Myrdal's work have thus prevailed in the economic debates. They have often been treated by the 'New Growth Theories' within the context of the stable equilibrium approach, thus generating different analyses and interpretations from those of the Swedish economist. In some cases, however, this literature has pointed out that the model can show the existence of multiple equilibria and poverty traps and have reached conclusions similar to those of Myrdal, seeing the circular and cumulative interactions among economic and non-economic forces as the mechanism that generates persistent and increasing inequality, and making policy interventions necessary.

As to Myrdal's critique regarding the kind of objectivity attributed to the neoclassical approach and the logical consistency of his theories, it stimulated an interesting response from Solow (1971). This defence of the neoclassical position, however, failed to consider exhaustively the arguments raised by Myrdal and ended up neglecting some important points. Solow not only overlooked the fact that Myrdal examined the self-healing power of scientific work within the widest problem of the role of science in society, but also failed to notice that Myrdal's critique of neoclassical theories did not refer to the analysis of rational choice. Rather, it concerned the fact that these theories must introduce discredited assumptions on the content of individual preferences in order to elaborate theoretical interpretations and policy prescriptions from the notion of utility.

The aspects of Myrdal's criticisms neglected by Solow still appear of great relevance. They contribute to comprehending why, in society and in research, there may prevail positions which are poorly founded and which can be detrimental to achieving social justice and progress. Moreover, they underline some limits of the dominant approach which the economic literature is still trying to eliminate.

## NOTES

1. The only paper that has underlined the existence of this contribution is Palsson Syll (1998).
2. In *The Political Element in the Development of Economic Theory* he wrote: 'The subjective theory of value, like other theories with a normative intention, makes it appear possible to deduce, by logical process, rational political principles from its analysis of social phenomena. The argument of this book is that such a deduction must involve a fallacy somewhere' (Myrdal, 1930, p. 88). Palsson Syll (1998, p. 422) quotes Myrdal's comment on an essay written by Åkerman, where he clarifies that in *The Political Element* he had tried to criticise the subjective theory of value proposed by the neoclassical school by applying the method of 'immanent critique', which consists in 'a satisfactory systematizing, from an inner point of view, of the view one studies, and from there to find out its assumptions and consequences. The point of the critique is to theoretically confront the different parts of the system, and, thereafter, scrutinize one part from the viewpoint of the other part' (Myrdal, 1931, p. 430).
3. Among the characteristics that are relevant to the development process of an economy Myrdal (1957, pp. 41–2) mentioned the availability of natural resources, the historical traditions of production activity, national cohesion, religions and ideologies, economic, social and political leadership.
4. Myrdal (1957, p. 50) also wrote: 'I shall ... be interested only in the broadest structure of essential facts and causal relations, not, at this stage, in particular cases. The general theory of under-development and development, for which I am reaching should explain those facts and relations which are common and essential'.
5. Myrdal (1970, pp. 15–16) stated that beliefs, unlike valuations, are propositions that can be falsified.

6. For Myrdal (1957, pp. 14–16), the cumulative causation approach, though recognising the complexity of the problems and the difficulty of the solutions, tends to sustain those believing in the ability of rational policy to modify unsatisfactory situations. The stable equilibrium approach, instead, is felt to bear the mark of scientific objectivity against the credulity of the do-gooders and in favour of social fatalism, the mistrust in the efficiency of interferences with social processes, and of the view that these processes are outside the grip of intentional policy measures.
7. Myrdal stated that the immediate effect of closing down certain lines of production in a community is the reduction of employment, income and demand. Through the analysis of the multiplier he pointed out that other sectors of the economy are also affected. Then he argued that the contraction of the markets in that area tends to have a depressing effect on new investments, which in turn causes a further reduction of income and demand and, if nothing happens to modify the trend, there is a net movement of enterprises and workers towards other areas. Among the further results of these events, fewer local taxes are collected in a time when more social services are needed and, if the local authorities want to maintain the previous standard of social services, they will then feel some pressure to raise the local tax rate, which in turn will make it still less worthwhile locating new businesses in that community. In the opposite case, the reduced quality of services offered to the community will impoverish the population, lower the standard of health and education, cause social instability and create even less favourable conditions to start new businesses in that area. The trend towards a lower level of development will be further reinforced.
8. Myrdal (1957) dealt with the role of the State on pages 39–49 and 79–92 and with international relations on pages 50–78 and 92–95.
9. The positions presented by Myrdal appear similar to those subsequently proposed by North (1993) and other economists (see Azariadis and Stachurski, 2005, pp. 299–301).
10. See Azariadis and Stachurski (2005, pp. 328–9). These similarities, however, should not be taken to imply uniformity in the theoretical positions of Myrdal and of this recent literature, which overlooks the problems arising from the use of subjective and non-observable elements, like the notion of utility and the influence of autonomous demand on growth. Note, however, that Murphy, Shleifer and Vishny (1989), a paper that explores Rosenstein-Rodan's views on industrialization and that can be seen as a forerunner of the literature on 'poverty traps', refers to the role that demand can have in the growth process.
11. Myrdal devoted attention to this issue in major works like *The Political Element in the Development of Economic Theory* (1930), *An International Economy* (1956), *Economic Theory and Underdeveloped Regions* (1957), *Value in Social Theory* (1958), *Asian Drama* (1968), *Objectivity in Social Research* (1970) and *Against the Stream* (1973).
12. The problems related to the measurement of unobservable preferences are again at the centre of scientific research. In a recent assessment of this subject, Camerer et al. (2005, pp. 9–10) also point out that at the turn of the century economists and social scientists, following the results achieved by psychological studies, abandoned the idea that the foundations of economics could be constructed through the knowledge of the functioning of the brain's black box. Ordinal utility and revealed preferences were introduced to eliminate the intermediate step of positing immeasurable feelings. According to these authors, this 'as if' approach made good sense as long as the brain remained substantially a black box. The development of economics could not be held hostage to progress in other human sciences' (2005, p. 10). The recent large amount of literature in 'neuroeconomics', however, 'is beginning to allow direct measurement of thoughts and feelings' (ibid.). It is thus supplying new vigour to the hopes expressed by Wicksell in 1901, replacing neurologists for physiologists as the group of scientists able to provide scientific foundations for the use of the notion of utility in neoclassical theories.

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