



Why reading K.W. KAPP (1950)?

Still highly relevant in the analysis (and policy) of economic development and environmental degradation



★ a close relationship between Kapp's ideas & ecological economics



The basic observation in ecological economics is banal and difficult to disagree with:

- the human economy is embedded in nature,
- and economic processes are also always natural processes in the sense that they can be seen as biological, physical and chemical processes and transformations.

Ropke 2004, The early history of modern ecological economics, *Ecol Econ* 50 (2004) 293-314

Environmental disruption and social costs must be looked upon as the outcome of an interaction of several complex systems (economic, physical, meteorological, biological, etc.) in which a plurality of factors interplay through 'feedback' processes

(Kapp 1970)

Environmental disruption and the growing scarcity of resources have finally made us aware of the fact that production, allocation [...] are taking place not in closed or semiclosed systems which economic science has traditionally used as theoretical models for the explication of economic processes but in basically open systems.

Kapp 1976, The open system character of the economy and its implications



Ropke 2004

However, the implications of this statement for the study of human societies and economies **are not banal.**

The ecological economic perspective calls for an **awareness** of the human dependence on well-functioning ecosystems - that provide the **basic life support** for human societies.

This awareness implies that economic growth can be **endangering human life** in much more subtle ways than the traditional discussion of limits to growth had considered.

Kapp 1976 The open system character

Increasing awareness of the open-system character of production and consumption, **is no guarantee** that its full methodological and practical **consequences are fully comprehended [..]**

Have we really understood the full implications of the fact that serious incompatibilities may develop between economic and ecological (as well social) systems, which **threaten**

- ✘ **the economic process,**
- ✘ **its social reproduction,**

and hence the continued guarantee of

- ★ **human well-being**
- ★ **and survival ?**

 Copyleft: Tommaso Luzzati

*Human needs, sustainable development, and public
intervention:*

learning from K. W. Kapp (1910-1976)

Karl William Kapp (1901-1976) advocated a crucial role for public intervention in the processes of economic development.

© The paper aims at reviewing his position and assessing his arguments.

1) One keystone of Kapp's idea the economy must be analyzed as **embedded** not only within the **society** (see institutionalists), but also within the **natural environment**.

2) Logical consequence of applying the cumulative causation approach a la Myrdal to a truly open economy →

*ungoverned economic processes **may not** be able to deliver economic, social, and environmental sustainability.*

3) When further considering, within an open economy view, **the very nature of the economic competitive process** and the high social costs it gives rise then active public policy is a logical a **must**.



♪ *biographical note*



1910 born in Königsberg (Germany)

University: Berlin, Degree in Economics and Law

1933 → Geneva (to escape nazi persecutions)

PhD with thesis on “Planwirtschaft und Aussenhandel” (Economic Planning and international trade)

1939-1965 →US, teaches in several Universities

1957 →India, at Gokhale Institute of Politics and Economics in Poona.

1961-1962 Rajasthan University in Jappur

1964 Philippine University in Quezon City.

1965 University of Basel (Switzerland)

1972 Stockholm, first UN conference on the environment rientra in †

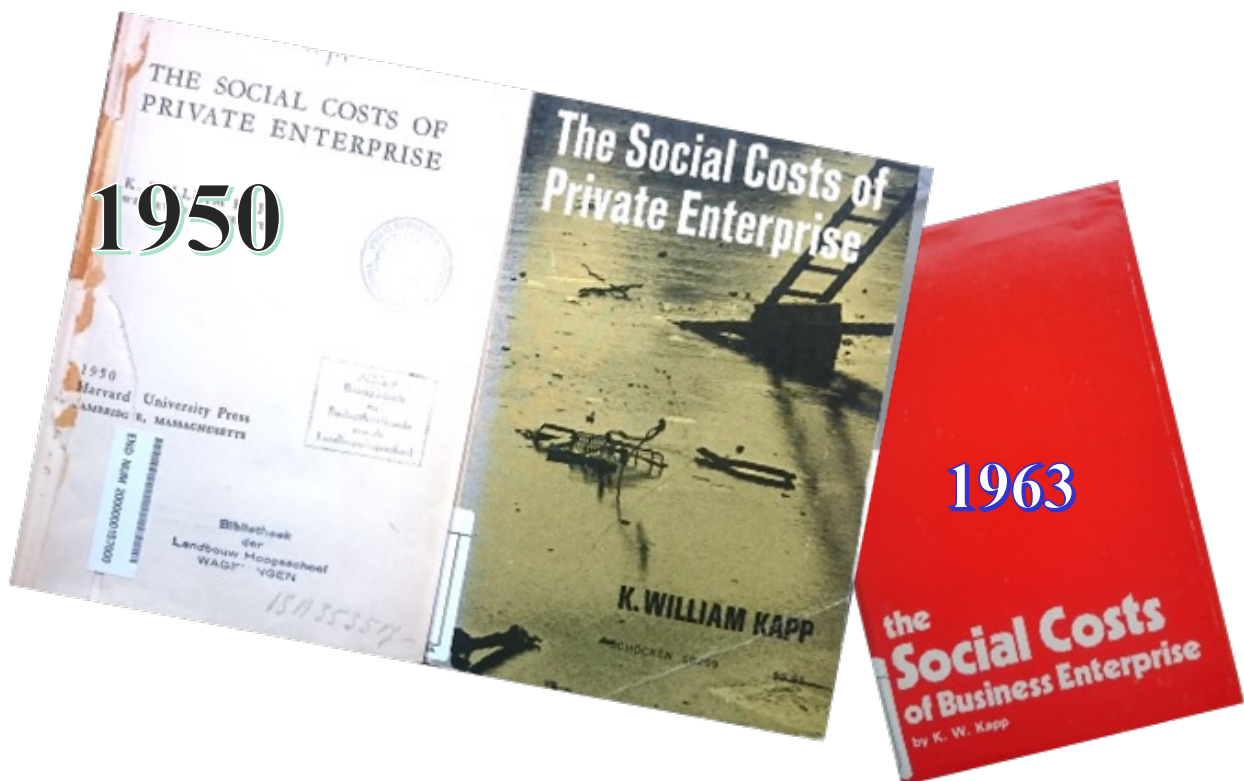
1976, 10 april, Dubrovnik (conference)

OLD institutionalist school

major influences:

T.Veblen, J.M.Clark, G.Myrdal, A.Lowe, F.Perroux, K.Polanyi.

(on Polanyi and Kapp see Swaney and Martin, 1989, Journal of Economic Issues)



Social cost, a wide concept

The purpose of the book is to present a detailed study of the manner in which private enterprise under conditions of **unregulated competition** tends to give rise to social costs which are not accounted for in entrepreneurial outlays but instead are shifted to and borne by third persons and the community as a whole.

p. XXVII The social cost of Private enterprise, 1950



Social cost, a wide concept

high social costs not only in terms of ecological imbalances and overexploitation of resources but also in terms of socioeconomic disruption ... including social and personal relationships ... and a general dehumanization of the conditions of individual existence and group relations, which tends to cumulatively undermine the fabric of society and culture (Kapp, 1977a, p. 208).



1950 *The Social Costs of Private Enterprise*.

(1963 ... of **Business Enterprise**) some basic ideas of Kapp's thought
Social costs: wide category, radically different from externalities.

1965-1977:

many articles, especially on *Kyklos*

on "economic development and environmental degradation"

Critique against traditional development policies (field experience in Asia!).

Need to consider the institutional context and the local conditions!

Need to know about physical and social variables,
need to accept the environmental constraints



4 suggested readings

1976 The open system character of the economy and its implications
in Dopfer (ed.)

1977 Environment and technology: new frontiers for the social and
natural sciences
Journal of Economic Issues, 11(3), pp. 527-40.

1974 The implementation of environmental policies
in Kapp, *Environmental policies and development planning in contemporary China and other essays*, Mouton, Parigi-L'Aia.

1977 Development and environment: towards a new approach to
socioeconomic and environmental development
in Steppacher et al. (ed.)



Myrdal G., 1957, *Economic Theory and Under-Developed Regions*

“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 toward it in a circuitous way – toward a position which in some sense or other can be described as a state of equilibrium between forces. [...]

on the contrary, in the normal case there is **no** such **tendency** toward **automatic self-stabilization in the social system**.

The system is by itself not moving toward 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 a social process tends to become cumulative and often to gather speed at an accelerating rate”

Kapp KW., 1963, *History of Economic Thought*, Barnes e Noble
p. 417

The notion of cumulative causation is introduced by MYRDAL to **criticize the idea of a stable equilibrium**, keystone in neo-classical economics in general and international trade theory in particular.

Circular cumulative causation = positive feedback loops

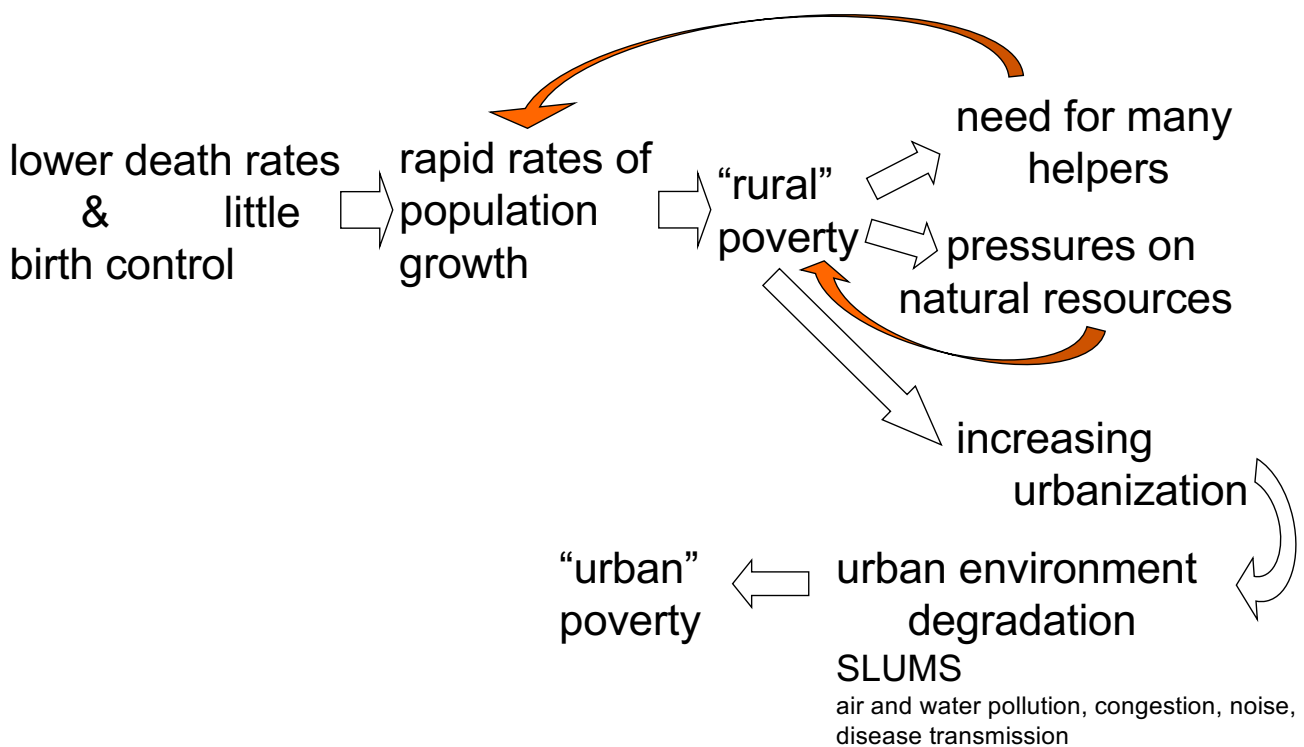


MYRDAL:
CUM CAUS
→ PERSISTENT INEQUALITY
→ PUBLIC INTERVENTION

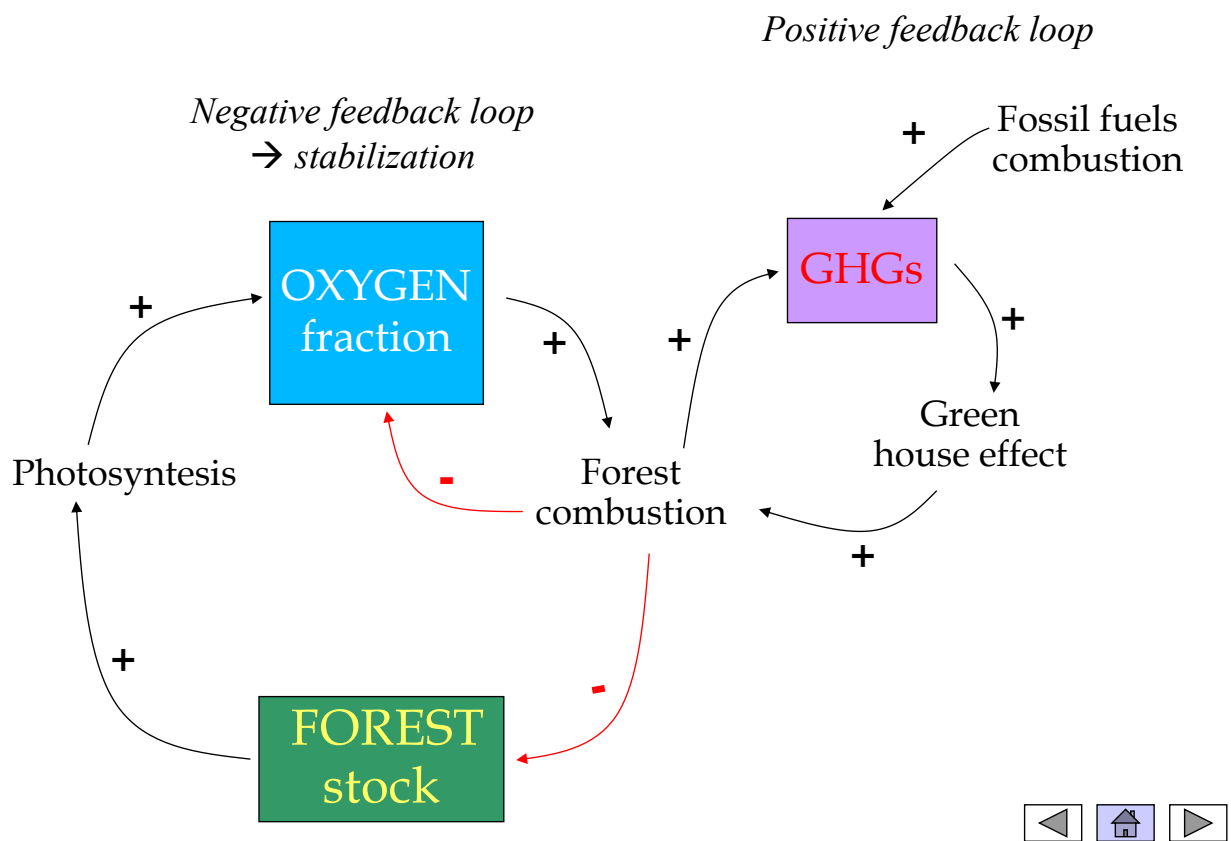
Myrdal notes that “the price system as a part of a very irrational whole, namely the economy of a backward and stagnating country, can hardly have any great claim on rationality” to guide the formation of policies. (in Kapp 1963)



An example of cumulative circular causation



FEEDBACK LOOPS



- ♪ *biographical note*
- ♪ *Circular cumulative causation and Myrdal*
- ♪ ***Kapp beyond Myrdal***
- ♪ *A unitary picture of Kapp's thought*
- ♪ *Kapp's development policies*

INDIVIDUAL LEVEL:

Kapp was also very concerned with the individual level and adopted Mill's and Veblen's notion of human agency according to which individuals are active, learning and social beings.

He believed that “with his specifically human intelligence is capable of using reason and science for the exploration of goals and as a basis for judgements as to the kind and direction of action to be followed.” (Kapp 1965, 76-77).



ULTIMATE ENDS of economic analysis and policy

1. minimisation of human suffering
2. continuation of human's life on Earth

→ emphasis

- ❖ on socio-economic reproduction
- ❖ dynamic equilibria nature-humans,

Competitive economy → pervasive social costs with
redistributive effects,
“the socialization of a relevant part of production costs” (*ibid.*,
23) →

social reproduction (sust dev.) & human well-being is AT RISK

definition of **objective existential minima** and other goals:
science & ethics & democratic processes



social minima differentiate between what are basic irreducible needs and what is non-essential [...]. In short [...] they would place unsatisfied individual needs and social requirements into the center of economic analysis. (1965, 76)



Awareness of the biophysical dimension
Not for analogical/metaphorical purposes rather
in direct integration ...e.g. social costs and
externalities



SOCIAL COSTS:

are seen as very extensive interdependencies, transferred by means of physical non-market exchanges, which feed complicated circuits of cumulative causality.

The traditional meaning of externality becomes therefore irrelevant, since social costs are not a secondary (or, at any rate, limited) phenomenon and cannot be reduced to simple cause-effect mechanisms.



Social costs & CCC & basic human needs →
very strong role for public intervention

However:

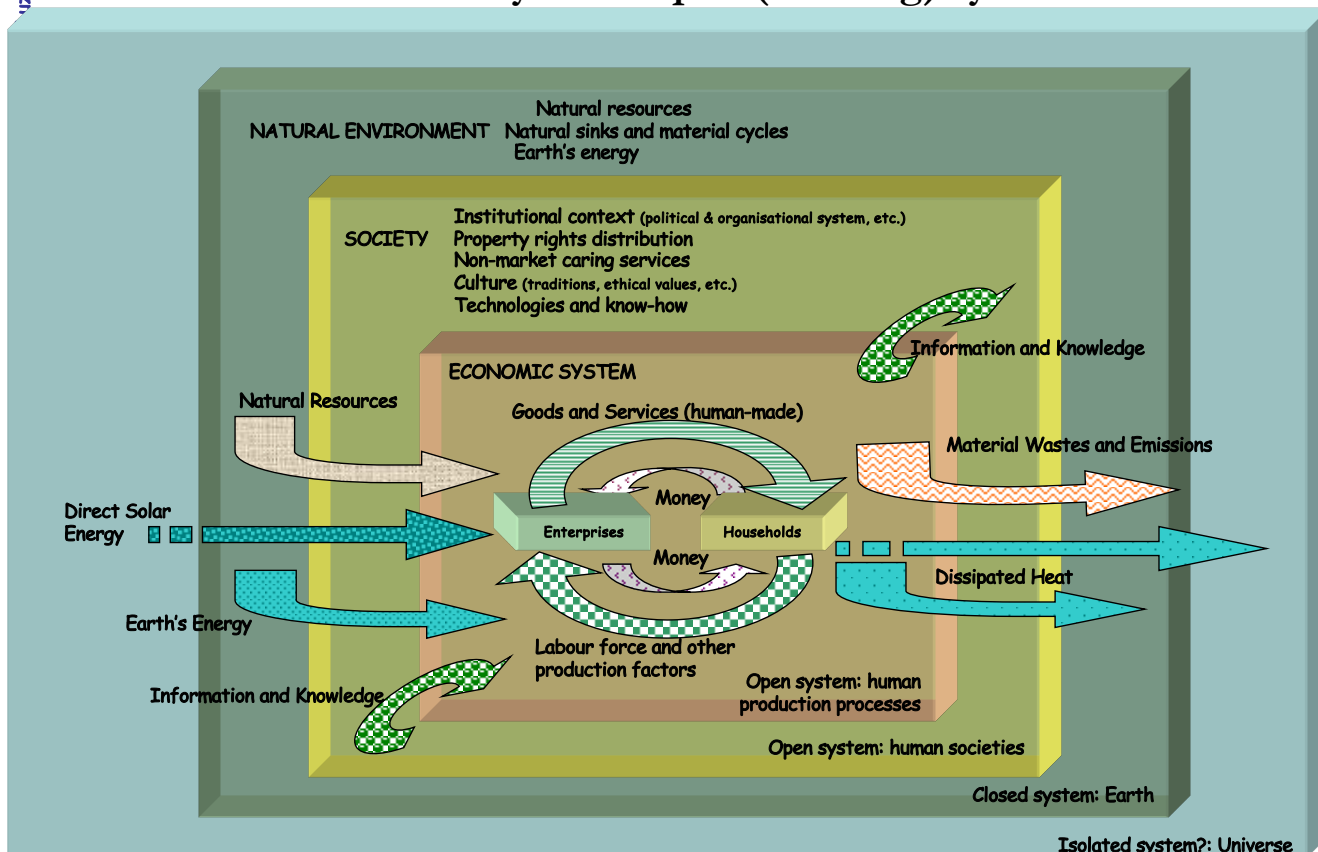
his consideration for humans prevented him to suggest top-down/paternalistic methods for choosing goals, strategies, and policies.

On the contrary he advocated a dialectic between ends and means, guided by the interplay between science and participatory processes within the constraints given by the ethical goal of human needs satisfaction.

This shows the pride of place given by Kapp to ethics and politics.



The economy as an open (evolving) system



JMAlier: The environmentalism of the poor



OPEN SYSTEM

and its implications

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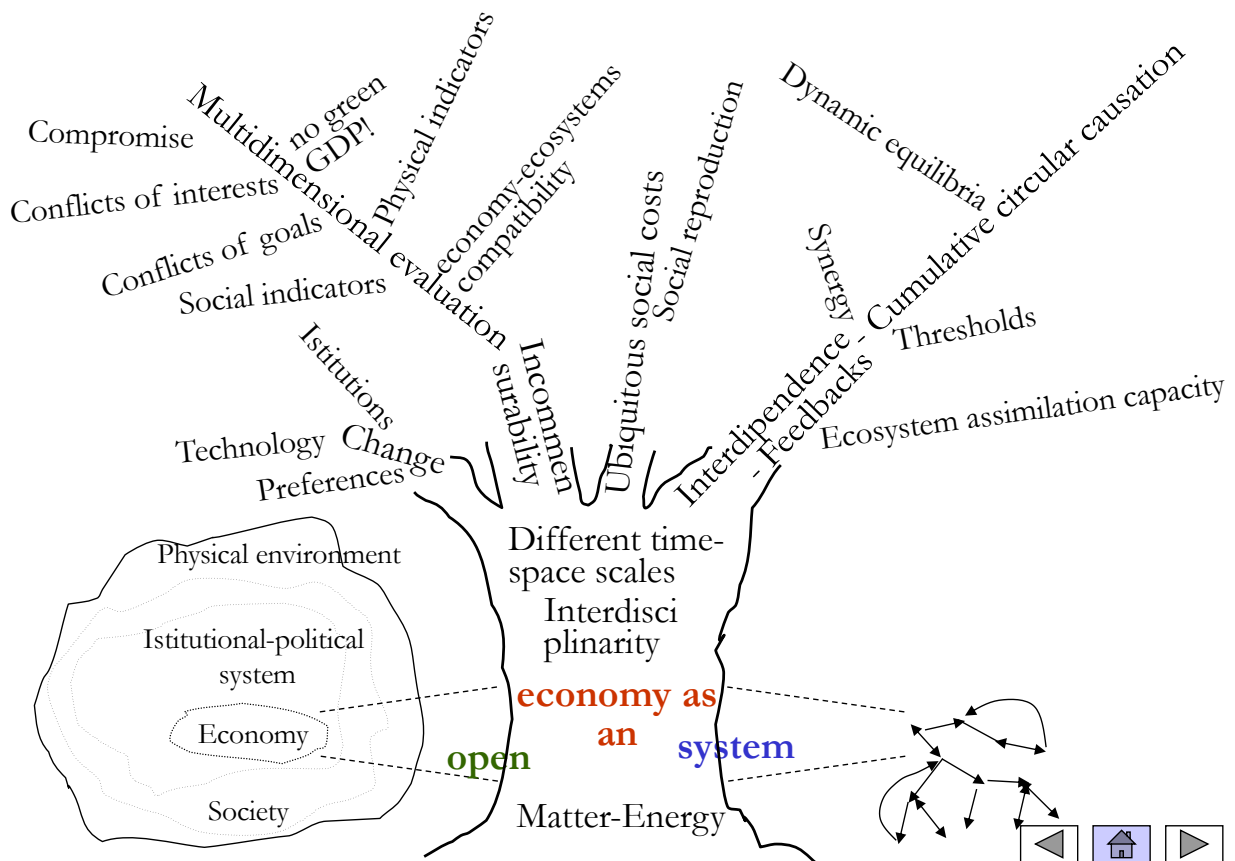
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Have we really understood the **full implications** of the fact that serious incompatibilities may develop between economic and ecological (as well as social) systems, which threaten the economic process, its social reproduction, and hence the continued guarantee of human well-being and survival?

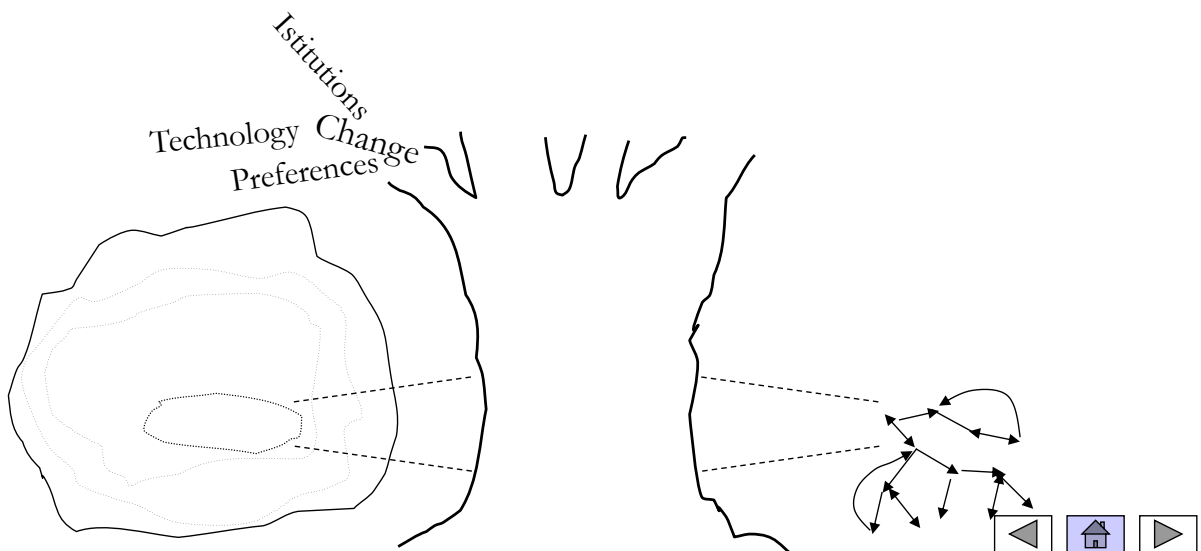
Kapp, K.W. (1976), 'The Open System Character of the Economy and its Implications', in K. Dopfer (ed.), *Economics in the Future: Towards a New Paradigm*, London: Macmillan, pp. 90–105



While Myrdal had to derive his belief on the irrationality in the market by observing stagnation

Kapp could go much further maintaining that “the organising principles of economic systems guided by exchange values are incompatible with the requirements of ecological systems and the satisfaction of basic human needs” (Kapp 1976a, 95).

A unregulated market leads to a systematic and substantial degradation of the physical and social environment through relevant cost-shifting that represent “a ‘socialization’, so to speak, of an important part of the actual costs of production” (Kapp 1977b, 529 ff.)



1) “... the economic problem consists not in adjusting given means to given ends but in a natural adaptation of ends and means in a continuous process of exploration which includes a search for alternative possibilities including new technologies and institutional adjustments (1965, 63)”

2) “the **need for a broadening of economic science into an integrated discipline of social economics** [...]

Among the key concepts of such discipline would be the concept of social system and **man** –

not homo oeconomicus who, despite all his fictitious cognitive and computational capacities, is nevertheless **confined to given means and given ends** –

but man who, with his specifically human intelligence is capable of **using reason and science for the exploration of goals** and as a basis for judgements as to the kind and direction of action to be followed.

(Kapp 1965, 76-77)



The **heterogeneous character** of the disrupting flows of damages and the **complex interdependencies** to which we have referred above

preclude any measurement and evaluation in terms of a **common denominator** (unless a common denominator be formulated in substantive terms, e.g. in terms of objectively safety limits...)

It is this heterogeneous character of the **disruptive extra-market flows** in addition to the complex and novel character of the interdependencies which give rise to environmental disruption, which constitute the greatest challenge to economic theory.

To meet this challenge **it will not be sufficient to assign monetary values** or shadow-prices to human beings, their health or their lives

(KAPP 1970, 846)



The terms “environment” and “ecology” [have to be] interpreted in a sense **sufficiently broad** to include not only ... the physical environment but ... all external conditions and influences affecting the life and development of human beings ...”

[There is a] widespread but **false impression that we are confronted only with a problem of ecology** in the narrower physical sense of the word. Even if we succeeded in purifying the air and water in and around large human agglomerates, we would still not have to come to terms with the important social costs that arise from the impairment of the human factor ...

direct human costs of production and economic growth which find their expression in death and disabling injuries from industrial accidents and chronic occupational diseases, as well as technological unemployment, poverty, and physical and mental burden ...

and those human costs of modern competitive production and consumption that find their expression in the pathology of everyday life in affluent societies ... functional disturbances of various sort (stress, insomnia, neurosis in general and many other symptoms that play a manifest role in the increasing social disorganization, irrationality, and violence of contemporary life.

Kapp 1971 introduction to “the social costs of Private enterprises”, Schocken
Paperback edition



“Indeed, the fact that **part of the costs of production can be shifted to third persons or to society** as a whole

is merely another way of saying that costs and hence profits depend at least to some extent on the **power** of the individual firm to do so...

A network of **interdependencies** connects the various producing and consuming units.

Firms of **unequal size and with unequal bargaining power** and with more or less access to, and control of relevant **information-including the possibility of manipulating such information in one's own favor-**

all these elements are integral parts of contemporary economic life from which economic theory can abstract only at the price of losing its relevance for the interpretation of economic processes.” (1969, 335)

(Kyklos 1969: On the nature and significance of social costs)



Kyklos 1969: On ... social costs (II)

- ▶ “The concept of social costs was developed
 - as **an analytical instrument for the determination of causal interdependencies** within the context of the development process AND
 - as a critique of the method and scope of classical and neoclassical economic analysis.
- ▶ As such it stresses the **dynamic cumulative consequences and interdependencies** within and beyond the narrow system of relationships which economic analysis selected as subject of investigation” (345)
- ▶ “Social costs are not minor exceptions to the rule but are typical phenomena” (334)
- ▶ “Social costs refer to consequences of productive activities and policy decisions which, for several reasons, carry an inevitable residuum of indeterminacy* but which are nevertheless real and important” (345)



policy implications: ultimate ends and intermediate goals



ends

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1. minimisation of human suffering 2. human survival

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Competitive economy → pervasive social costs with redistributive effects, “socialisation” of a relevant part of production costs

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social minima

social minima differentiate between what are basic irreducible needs and what is non-essential [...]. In short [...] they would place unsatisfied individual needs and social requirements into the center of economic analysis. (1965, 76)

definition of **objective existential minima** and other goals:

science & ethics & democratic processes



“in order to satisfy these **human needs** and to arrive at a **substantive rationality** in the utilization of society’s scarce resources,
these requirements (environmental requirements) will have been defined as **objectively** as our present **knowledge** permits
and evaluated by means of a deliberate collective, i.e., **political decision** in comparison to other public goals to be pursued. [...]
The elaboration and acceptance of environmental goals call for a collective or social choice
with direct participation and expression of preferences by all members of society, even those outside the market and **without reference to effective demand**” (Kapp 1963, p. 317).
The Social Costs of Business Enterprise



1977 Development and environment: towards a new approach to
socioeconomic and environmental development
in Steppacher et al. (ed.)



1977, Development and Environment

Developing countries and environment:

Often the environment is seen as a “**luxury**” (E.g. Hirschman, Harry G. Johnson), «development first!»

Environmental Kuznets Curve ??? NEXT lecture

It is dangerous to consider environmental degradation
as an **unavoidable cost of the economic development**

WHY?



environmental degradation and social costs have a negative effects on the cumulative process of economic development

Kapp (with others) affirms

“serious nature of environmental disruption and social costs in developing economies and their **inhibiting** consequences on the development proces both in the short and in the long run.”
(205)

What is needed?
to “recognise that the environmental disruption and social costs are important casual factors that play a significant role in the cumulative process of development (209)



Unity of economy, society and natural environment.

Economic **development**, society, and natural environment cannot be analysed separately.

The **development process has a multidimensional** (incommensurable) nature and cannot be defined only in terms of GNP (e.g. Kapp 1974a, 155). (*even worse: ecological footprint!!!*)

«The challenge is reorienting resource allocation according to a **more broad calculation** that includes also short and long term social costs and **considers several alternatives.**» (*ibid.*, 152).



Towards alternative strategies and methods of planning

- to «**abandon the false dichotomy of economic and socioenvironmental objectives**»
- to «treat many of the socioeconomic factors, such as technologies so far regarded as **given**, [...] as dependent variables that need and must be changed and adapted ...»
- UNEP plan action (1973) need to “adjust technologies to local ecosystems,... rather than applying imported technologies which may have harmful effects”
- to recognise the importance of **data indicators** and empirical research



Development: **key role of local resources/factors!**

“Importance of relying, as far as possible, upon the country’s own resources as well as upon public participation in the political decision-making process” (Kapp 1977, 215) of “a policy that stresses the use of available resources and techniques and their modernization [...]”

“**self-reliance** [...] is one way of ensuring that the development process does not become selfdestructive to the physical and social environment. (215)”

A policy for selfreliance facilitates and increases the capacity of the population to develop, invent, and absorb new tools and technologies; it will thus support their confidence in their ability to increase productivity and to come to terms with the problems before them without surrendering their independence, their autonomy of decision making, and their choice of policy options in harmony with their own values and preferences.

For these reasons, too, a policy of selfreliance and **resistance to submission to foreign control** must remain an essential objective of every viable national entity (216-7)

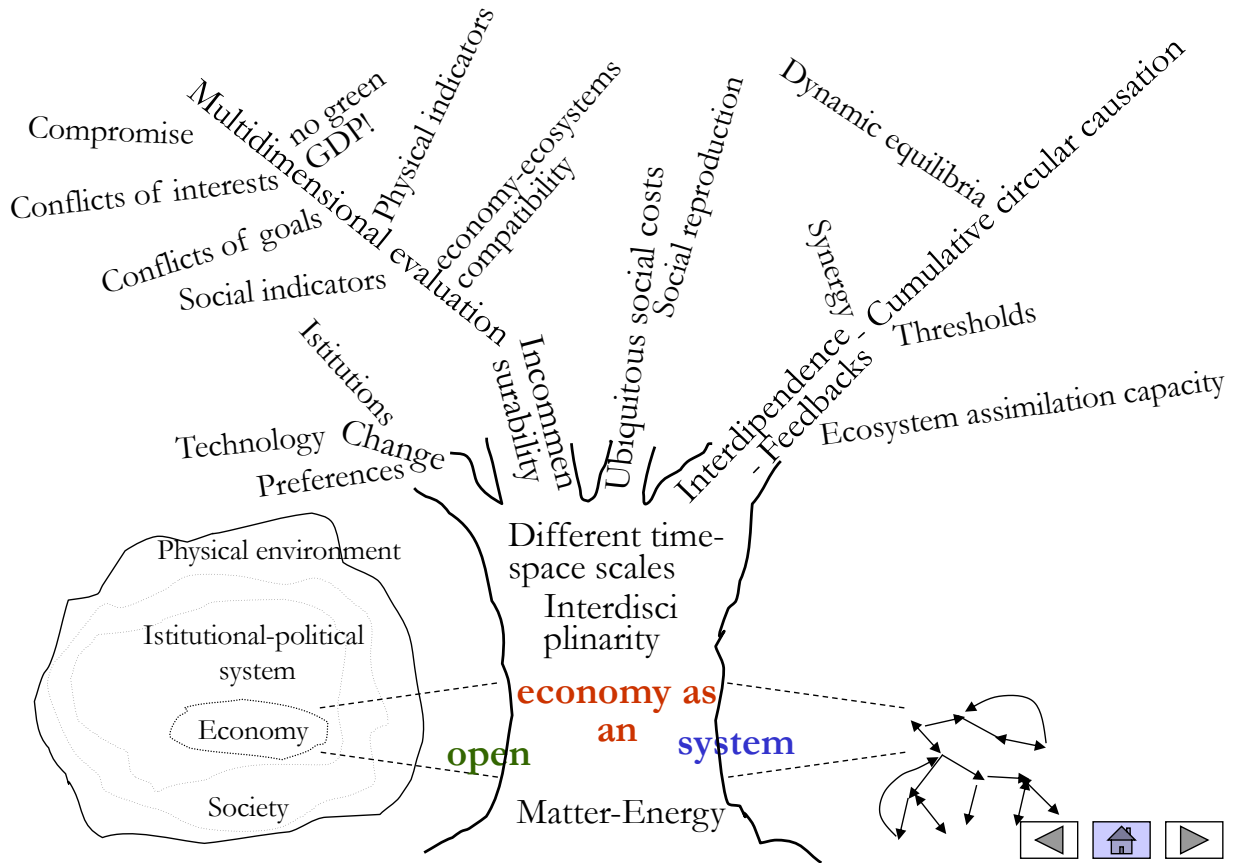


Traditional policies (**environmental degradation = unavoidable cost of economic development**) are doomed to failure as they are monodimensional (economy), AND weakly connected with the local context .

Outcome:

- 1) economic progress???
- 2) **new dominations** of rich countries on poor countries (included “environmental unequal exchange”) that “are reflected for instance on the transfer of capital and technologies to LDC, after having developed by and for the industrial world.”(206-07) Green Revolution: high yielding varieties 205.
- 3) high social costs →





- Kapp as an institutional political economist: the economy is embedded within the society → social costs & power
 - Kapp as an “environmental” economist: “externalities are ubiquitous”
- Kapp as a humanist economist (ETHICS)
 - Kapp as a development economist

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