14. Human needs, sustainable development, and public policy: learning from K.W. Kapp (1910–1976)*

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14.1. INTRODUCTION

The role and extent of public intervention in the economy, more than any other topic, has polarized the various traditions of economic thought. Karl William Kapp (1910–1976) was among those who strongly advocated public intervention. However, his analysis and the prescriptions involved were rather peculiar. His approach was rooted in (old) institutionalism and his attention focused on economic development and its processes. He maintained that economic analysis and policy have to be centred on the satisfaction of human needs and ensure continuation of human life on Earth. He saw himself as an advocate of 'rational humanism'. Ahead of his time, in the 1950s he was already aware that unregulated economic processes deeply impair the human environment (both the social and natural environment). Given these premises, he saw public intervention as being aimed at protecting the human environment, both in the short and long run. It must not be thought, however, that he suggested 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.

This chapter will outline K.W. Kapp's position, with reference both to the analytical framework he elaborated and to one of its origins, Myrdal's approach. The next section shortly introduces the life and works of Kapp. The third section focuses on circular cumulative causation, a notion that he mainly derived from Myrdal and that was central to his thought. Section 14.4 shows in what respect Kapp moved beyond Myrdal, Section 14.5 seeks to give a unitary picture of his thought, while his position on development policies is explored in Section 14.6.

14.2. A BIOGRAPHICAL NOTE

Kapp was born in 1910 at Königsberg in Germany, and graduated in Economics and Law at the University of Berlin. Forced to leave Germany in 1933 to flee Nazi persecutions, he settled in Geneva where he obtained his PhD with a thesis on 'Planwirtschaft und Aussenhandel' (Economic planning and international commerce). He then lectured at various universities in the USA, the country to where he moved in 1939. In 1957, as a Fulbright research fellow, Kapp moved with his wife to the Gokhale Institute of Politics and Economics at Poona in India. From 1961 to 1962, he visited the University of Rajasthan in Jaipur and in 1964 the University of the Philippines in Quezon City. In 1965, he went back to Switzerland, at the University of Basel. Kapp contributed to the first United Nations Conference on the Human Environment held at Stockholm in 1972 as an expert in environmental problems (for more details, see the profile by Steppacher (1994)).

His thought belongs to the institutionalist tradition, influenced in particular by T. Veblen, J.M. Clark, G. Myrdal, A. Lowe, F. Perroux and K. Polanyi. With Polanyi, in particular (for a detailed comparison see Swaney and Evers, 1989), he shared the idea of an individual embedded in social relations and of an economy as an open system, tied by a double strand to the natural and cultural context. As a consequence, Kapp advocated the need to integrate the study of economic, physical and social spheres. As we will see in the following, Kapp, influenced by Myrdal's notion of cumulative causation and by the developments of system theory in the 1960s, adopted a systemic and evolutionary perspective. Such a perspective led him to reject the 'boundary conditions' normally defined by economic theory, that is, the hypothesis of exogenous preferences, technology and institutions. Above all, Kapp believed that the focus of economic inquiry should be human beings and their needs – at least partly definable with objective and broadly shared parameters, that is, a corpus of 'existential social minima' which is open and to be determined in time.

Publication in 1950 of the book *The Social Costs of Private Enterprise*[1] may be considered the first significant stage in Kapp's thinking. In subsequent years, in several books and articles, he progressively refined his key concepts. His ideas matured and were summarised in publications in the late 1960s and early 1970s, many of which appeared in *Kyklos.* Unfortunately, the mature stage of his scientific production was suddenly interrupted when he suffered a heart attack during a conference on ecological development at the University of Dubrovnik in Croatia and died the day after on 10 April 1976.

14.3. MYRDAL'S CIRCULAR CUMULATIVE CAUSATION AS A KEY ELEMENT IN KAPP'S THOUGHT

In his collection of readings in the history of economic thought, Kapp includes a part on 'social or institutional economics' (Kapp and Kapp, 1963, p. 381). In the introduction to that part he traces a concise picture of the distinguishing features of institutional economics – a picture which is very close to subsequent papers on the nature of institutional economics both by himself (Kapp 1968, 1976b) and by others, such as Myrdal (1978). In particular, two ideas are central, that 'the economy is more than the market' and that '[it] is always a process of becoming' (Samuels, 1995, p. 580), which Kapp expresses as the need to take 'account of the open and dynamic character of the economy' (Kapp and Kapp, 1963, p. 382).

The first claim, that 'economic problems must be viewed within a broad social and political framework' (Kapp and Kapp, 1963, p. 381), is entailed by a systemic perspective that views the economy as an open system. As a subsystem of the social system, the economy is part of a large web of interconnected elements so 'it becomes, indeed, difficult to perceive what precisely should be meant by the "economic factor" as distinct from the others, and still less understandable how it can be "basic", as everything is cause to everything else in an interlocking circular manner' (Myrdal, 1957, p. 19, also in Kapp and Kapp, 1963, p. 418).

The second claim, that the economy has to be viewed in continuous change, is a matter of 'process philosophy' – an approach that began with the ancient Greeks (Heraclitus of Ephesus) and continues to this day (modern process philosophers include H. Bergson, J. Dewey, A.N. Whitehead). Within economics, J.S. Mill in his *System of Logic* (1843) had already focused on processes by identifying cumulative circularity – both between causes and effects and between humans and their context – as the driving force behind social change.

> The circumstances in which mankind are placed ... form the characters of the human beings; but the human beings, in their turn, mould and shape the circumstances for themselves and for those who come after them. From this reciprocal action there must necessarily result either a cycle or a progress. One of the thinkers who earliest conceived the succession of historical events as subject to fixed laws, and endeavoured to discover these laws by an analytical survey of history, Vico, the celebrated author of Scienza Nuova, adopted the former of these opinions. [On the contrary Mill thought that] ... in each successive age the principal phenomena of society are different from what they were in the age preceding ... [and that] ... what we now are and do is in a very small degree the result of the universal circumstances of the human race, or even of our own circumstances acting through the original qualities of our species, but mainly of

> the qualities produced in us by the whole previous history of humanity (Mill, 1843, Book 6, Ch. 10, Sect. 3).

In short, 'history matters' and human societies are mainly the result of their own history. The key mechanism is the principle of sequential, related and cumulative process on which is based the present notion of 'path-dependence' and 'lock-in'. Cumulative change is pivotal in Veblen's writings, who used it to build his non-teleological evolutionism, where neither ultimate causes nor final states can be considered in an unending process of change that replaces the traditional equilibrium idea (see, e.g., Hodgson, 1994). Veblen's concept is held (see Hodgson, 1994; Argyrous and Sethi, 1996) as highly influential both on the circular cumulative causation (CCC) approach followed by Young in 1928 and subsequently by Kaldor, and, more in general, on evolutionary economics (Mayhew, 2001, p. 243). To be fair, however, as Berger and Elsner (2007, p. 529) noted, 'approaches dealing with "cumulative causation" were common in England, Germany and Sweden in the 1920s'. Actually Kapp took Myrdal's approach as the main reference for CCC, pointing out, among others, that Myrdal 'draws the logical inferences and the practical conclusions from Veblen's earlier notion of cumulative change and drift'[2] (Kapp and Kapp, 1963, p. 385).

With the help of many excerpts taken from Myrdal's *Economic Theory and Underdeveloped Regions*, Kapp and Kapp (ibid., pp. 417–34) draw attention to 'the notion of a circular casual relationship of all relevant factors in a social system' (ibid., p. 384) and its cumulative character that makes the idea of stable equilibrium of low empirical relevance. One important application of circular cumulative causation is to explain the drift toward regional and interregional inequality. More specifically, 'backwash' effects largely dominate spread effects in underdeveloped regions, so that even absolute inequality may increase.[3]

Given the insufficiency of self-correcting market forces, and given the aim of spurring development and increasing equality, Myrdal calls for public action. Circular cumulative causation is 'bound to encourage the reformer' since 'it promises final effects of very much greater magnitude than the efforts and cost of the reforms themselves', which 'is, in one sense, a demonstration, and also a measure, of the earlier existing "social waste"'. (Myrdal, 1957, p. 20, also in Kapp and Kapp, 1963, pp. 418–19). This allows Myrdal (and Kapp as well) to understand policy as a broad complex of measures inducing and controlling a cumulative process of change. Myrdal (1957, p. 90) 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.

> The plan and its targets have in the final analysis to be determined by decisions which represent choices made among different, alternatively possible, sets of goals and means. These choices are policy decisions, reached in terms of national development goals as determined by the political process (Myrdal, 1957, p. 89).[4]

Kapp fully endorsed Myrdal's position. He did it to such an extent that he would write that 'with Myrdal's formulation of the principle of circular causation we finally arrive at the core of institutional economics which sets it apart from earlier and contemporary non-institutionalist approaches and particularly from mechanistic equilibrium analysis' (Kapp, 1976b, p. 217).

The thought of J.S. Mill is very relevant to institutionalism in general, and to Myrdal's and Kapp's positions in particular. For this reason it is helpful to read some passages again from J.S. Mill's *System of Logic*.

> [Man] has, to a certain extent, a power to alter his character. Its being, in the ultimate resort, formed for him, is not inconsistent with its being, in part, formed by him as one of the intermediate agents. His character is formed by his circumstances, (including among these his particular organisation), but his own desire to mould it in a particular way is one of those circumstances, and by no means one of the least influential (Mill, 1843, Book 6, Ch. 2, Sect. 3).
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> ... the character, that is, the opinions, feelings, and habits of the people, though greatly the results of the state of society which precedes them, are also greatly the causes of the state of society which follows them (Mill 1843, Book 6, Ch. 9, Sect. 4).
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> ... we must remember that a degree of knowledge far short of the power of actual prediction is often of much practical value. There may be great power of influencing phenomena, with a very imperfect knowledge of the causes by which they are in any given instance determined. It is enough that we know that certain means have a tendency to produce a given effect, and that others have a tendency to frustrate it. When the circumstances of an individual or of a nation are in any considerable degree under our control, we may, by our knowledge of tendencies, be enabled to shape those circumstances in a manner much more favourable to the ends we desire than the shape which they would of themselves assume. This is the limit of our power, but within this limit the power is a most important one (Mill 1843, Book 6, Ch. 5, Sect. 4).

Mill was pointing to the power of human action to induce change, the importance of social/institutional factors, the practical value (involved by a dynamic approach) of knowing the quality/direction of the feedbacks. These features lie at the core of the institutionalist paradigm, albeit with different emphasis in each author. Differently from Veblen, Myrdal and Kapp emphasised the possibility and need for action. Moreover, Kapp was also very concerned with the individual level and adopted Mill and Veblen's notion of human agency according to which individuals are not passive recipients of pleasure and pain, 'a bundle of desires that are to be saturated

… but rather a coherent structure of propensities and habits which seeks realisation and expression in an unfolding activity' (Veblen, 1898, p. 390). In other words, Kapp took individuals as active, learning and social beings.[5] Actually, he was rather optimistic since he believed that 'man, 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, pp. 76–7).

14.4. EXTENDING MYRDAL

Myrdal's position is generally summarised by three core ideas (e.g. Panico and Rizzo, 2008) – the cumulative causation approach, the consideration of socio-cultural factors and the impossibility of value-free theory, which involves the need of explicit value premises. Myrdal's main value premise was equality such that his analysis developed as a theoretical foundation of egalitarian policies. Kapp took some steps further thanks to a basic analytical extension of Myrdal's approach. The extension was to further 'open' the economic system, not only to the society system, but also to the bio-physical system; in other words he maintained the need to analyse the economy not only as part of society but also of the natural environment.

Such an idea was originated by Kapp's early interest and adherence to general system theory, substantially supported[6] in the 1960s and which was to assume a key role in ecology and had a distinguished predecessor in Erwin Schrödinger. Kapp was aware of the thermodynamic nature of the living organisms that keep themselves alive by exchanging matter with their environment (e.g. Kapp, 1961, p. 93). Moreover, like Georgescu Roegen, he was well aware that societies also have a physical metabolism that cannot be left out of the analysis. As pointed out by Berger and Elsner (2007, pp. 532–3), Kapp and Georgescu refer to bio-physical knowledge not for analogical/metaphorical purposes, rather 'in a direct integration, as far as this is directly applicable to the biological open character of man and the material level of the economic process', that is 'to establish a causal analysis, which directly takes physical and institutional chains into account' and 'to deal with discontinuous nonlinear feedbacks, which characterize the dynamic interdependencies between the different subsystems, as well as of each subsystem with the composite whole'. Later on, when doing research on China, Kapp found such an approach consistent with Taoism:

> the Taoist component of Chinese culture has always held that man and society are integral parts of nature and hence marked by interdependencies which, if ignored by human action and innovation without adequate assessment of their consequences, must give rise to grave perturbations of man's social and natural

> environment. … The term environment will be interpreted in the broad sense in which it is used in the Chinese literature. That is to say, it includes both the social and the physical components of the human environment as it affects the quality of life in the wider sense of the term (Kapp, 1974a, p. 10).

It is the very consciousness of the biophysical dimension that makes Kapp's analysis and his policy prescriptions very peculiar and broad. For instance, social costs, a major cause for concern among institutional economists,[7] acquire a special light. They are seen as very extensive interdependencies.[8] 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[9] and cannot be reduced to simple cause–effect[10] mechanisms.

As a result, while Myrdal had to derive his belief on the irrationality in the market by observing stagnation (as evidenced in the quote in Section 14.3), 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, p. 95).

Combining social costs with CCC, Kapp attacked positions like Hirschman's according to which ecological protection is a 'luxury' so that 'planners would be well advised to follow the old "capitalist trick" of shifting social costs to society at large' (Kapp, 1977a, p. 205). The recipe of 'first the economy, then the environment' is held by Kapp to be ineffective and dangerous since 'environmental disruption and social costs are important causal factors that play a significant negative role in the cumulative process of development … The false dichotomy of economic and socio-environmental objectives' (ibid., p. 209) has to be abandoned (see also Kapp 1974b, p. 105). In other words, preventing environmental degradation in Kapp is not a matter of environmental ethics, rather a need arising from the awareness that the economic processes, via extra-market physical flows, 'threaten the economic process, its social reproduction, and hence the continued guarantee of human well-being and survival' (Kapp, 1976a, p. 91; see also Kapp, 1977a, p. 205).

The material nature of human beings made him focus on basic needs.[11] He strongly believed that public policy has to be guided 'by the social and *moral* imperative of minimizing human suffering' (Kapp, 1977b, p. 538). He maintained that

> economic decision-making will have to be guided by a substantive concept of rationality; such a concept would be based upon a direct social evaluation (at the political level) of essential human needs and their relative social importance and the real costs evaluated in terms of available, unutilized and potential resources …

> as well as the possibility of sharply restricting or abandoning the pursuit of less essential objectives. Among these objectives we would list the production of luxury goods, the pursuit of costly programs of space travel and nuclear weapon systems the relative social importance of which has never been evaluated and compared with the social need of safeguarding the dynamic equilibrium of the environment. Instead of exchange values, social use values (values which are socially i.e. politically appraised and determined) would begin to guide the process of production and allocation while calling simultaneously for the setting-up of the necessary institutional arrangements (Kapp, 1974c, p. 136).[12]

Finally, his consideration for humans prevented him from suggesting 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 actually shows the pride of place given by Kapp to ethics and politics. The decision as to which avenues to follow and instruments to use is the actors' task, both for a question of legitimacy and because the actors are those who best know the context of their action and their ability to set in train the strategies that have been worked out. 'External' agents, even if experts (scientists/technicians), must not and cannot provide solutions and remedies; rather, they should offer instruments capable of improving the soundness of actors' decisions.[13]

14.5. A SYNTHESIS OF KAPP'S APPROACH

Having sketched Kapp's approach, this section will gather his more recurrent and significant ideas within a unitary framework, which is tentatively illustrated in Figure 14.1

The cornerstone is, in my opinion, the very consideration of the biophysical dimension of society and life. On it Kapp based the very central notion of 'the economy as an open system' – a notion from which, in turn, most of Kapp's analytical concepts follow (see Kapp, 1976a). Such a systemic perspective, that also takes account of the social and physical environment, involves not only interdisciplinary research (e.g. Kapp, 1977b, p. 528) but also the acknowledgement that phenomena under observation both unravel on various spatial-temporal scales (e.g. Kapp, 1976a, p. 99; Kapp, 1977b, pp. 529 ff.) and require non-equivalent descriptions (see, e.g., Giampietro, 2003).

From these methodological premises four (interconnected) veins branch off, that is, system dynamics, social change, incommensurability, and relevance of social costs. Within a biophysical systemic perspective, phenomena continuously change and show the typical non-linearity of

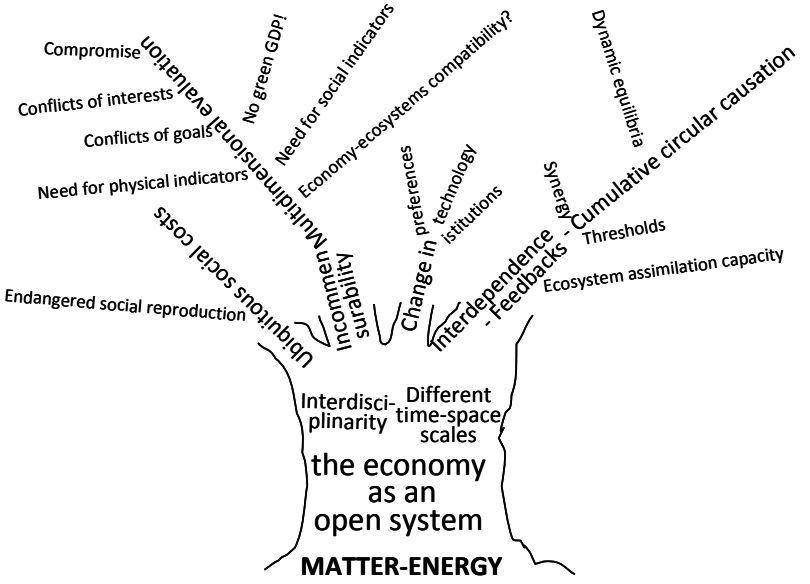
complex systems (such as threshold effects and synergies, see e.g. Kapp, 1976a, pp. 97 ff., or Kapp, 1977b, pp. 529 ff.). Human society makes no exception, which involves acknowledging change in preferences, technology and institutions (e.g. Kapp, 1976a, p. 102). Incommensurability follows straight from the multiplicity of scales and descriptions needed; despite a common material and energy base[14] (see Kapp, 1977b, pp. 531–2), phenomena show epistemological and ontological incommensurability that cannot be reduced to a common denominator.[15] Finally openness to physical and social systems makes the extent of the social costs in current competitive market economies very visible.[16]

On social costs his starting point was a detailed pioneering analysis (Kapp, 1950) of the many sources of social 'waste' induced by the working of the capitalist economy. Refining his critique, in the years to follow, he defined it as 'a 'system of non-paid costs' which generates high social costs and where 'power' of shifting costs onto others (*cost shifting*) is highly relevant'[17] (e.g. Kapp, 1969, p. 335). It was the inclusion of the bio-physical dimension that made Kapp conclude that an 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, pp. 529 ff.).[18]

As a consequence, defending society and social reproduction against social costs, i.e., against the spontaneous disorder of an unregulated market, is for Kapp an ethical must. To implement social control we should define aims that are both socially desirable and that guarantee 'the maintenance of dynamic states of ecological and economic balance' (Kapp, 1976a, p. 101). According to Kapp, such objectives need be defined through the joint action of technical aspects and politico-ethical aspects:

> 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 (Kapp, 1963, p. 317).

In other words, social control has to be implemented through democratic processes[19] which should ensure a compromise among the many interests and conflicting aims (see, e.g., Kapp, 1976a, p. 100; or Kapp, 1977b, pp. 536–7), guarantee social reproduction (intergenerational equity), and adhere to 'the social and *moral* imperative of minimizing human suffering' (Kapp, 1977b, p. 538) (intragenerational equity).



Note: Important epistemological tenets follow from acknowledging the material nature of human systems – to take into account of the openness (both to nature and society) of the economy, to use a systemic perspective, to look at several (and appropriates) time-space scales, to do interdisciplinary research. Having in mind these founding premises, Kapp's more recurrent and significant ideas can be gathered, as explained in details in the text, within a unitary framework made of four major branches.

Figure 14.1. The economy as an open system and its implications

A basic need for his proposal is, of course, a wide range of social and physical indicators[20] (see e.g. Kapp, 1977b, p. 538) for which Kapp makes a plea. Aware of the incommensurability of the various spheres, however, Kapp maintains the need of an integrated multidimensional approach (Kapp, 1976a, p. 97) showing that, in the context of social evaluation, 'all monetary evaluations' are 'problematical if not indeed unacceptable and cognitively irrelevant' (ibid., p. 101). Kapp argues that economic calculation cannot be extended beyond its normal field of application, that is, cannot be used in order to express the 'relative social importance in the sense of value to society (and individuals) both in the short and in the long run' (ibid.) of the environmental damage and of the public goods and services. Kapp, in other words, considers it neither sensible nor effective (see e.g. Kapp, 1977b, p. 534) to reduce real-world complexity merely to an economic dimension, expressing, for example, serious doubts about the 'current proposal of "deducting" social costs from gross or net national product measurements'

(Kapp, 1976a, p. 104). Like Georgescu Roegen, Kapp criticises the use of synthetic indexes to express, for instance, the 'true' value of goods and services.[21] Such indexes instead, 'upon closer analysis, can be shown to reflect either the subjective preferences and valuations of the experts and/or powerful vested interests' (Kapp, 1976a, p. 100).

14.6. ECONOMIC DEVELOPMENT POLICY

The focus on the physical and social environment played a key role for Kapp's analysis of economic development. In particular, two of his last articles (Kapp, 1974b, 1977a) show very effectively the need for integration between development and human environment.

Kapp personally experienced, during his lengthy study periods in Asia, the negative effects of traditional development policies, focussing on the technical and economic efficiency of investment projects and paying little heed to the institutional and cultural context or to impacts on social and physical equilibria. Such a one-dimensional vision, focused only on the economic sphere, has produced policies poorly connected to local situations and the socio-institutional context, often bringing about 'new dependencies and domination effects' between developing countries and their industrialised 'partners' (Kapp, 1977a, p. 206). The green revolution was an example taken by Kapp of a misguided transfer of capital and technologies to less developed countries – technologies which, for having being developed by and for the industrial world, have 'turned out to be problematic and in fact inappropriate solutions for the problems of the less-developed countries'. Kapp held that most development policies failed, producing instead

> 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).

Still today the LDCs are particularly fragile, entering 'the process of economic and social change under conditions which are in several respects less favourable than those which prevailed in today's advanced economies two hundred years ago', whether for intrinsic reasons, or due to the presence of already affluent and powerful economies (Kapp, 1974b, p. 103). The outcome envisaged by Kapp is 'a division of labour highly problematical for the LDCs in the long run' (Kapp, 1974b, p. 103) – the usual division of labour in which poor countries export low value-added products, with little

effect on local development, within a context of growing economic dependence and high environmental, and hence social, impacts.

In dealing with such fragility, Kapp believed as 'essential that the less developed countries consider the process of development from the very outset as a multi-purpose undertaking' to be defined not 'exclusively in terms of national income … [i.e.] in terms of a single monetary denominator' (Kapp, 1974b, p. 106). The challenge thus becomes one of working out strategies for development, social planning and control capable of re-directing resource allocation 'with a more comprehensive economic calculus, taking into account the short and long term social costs and potential social benefits of alternative patterns of resource allocation' (Kapp, 1974b, p. 104).

In the previous section, the importance attributed by Kapp to indicators was mentioned. The first step for building a development strategy (Kapp, 1974b, pp. 106 ff.; Kapp, 1977a, pp. 209 ff) – as is now fairly consolidated – is to monitor the environmental and socio-economic situation using a sort of 'inventory' which gathers indicators and indexes on various scales, each expressed in the most appropriate unit of measurement regarding living conditions, the satisfaction of primary needs, the employment situation, pollution, the state of resources, technologies, the location of economic activities, and institutional factors.

This 'incommensurable complex' makes the next step, i.e., the process of identifying aims to pursue and possible lines of intervention, particularly difficult. While for the individual firm the objectives 'may be said to be quantifiable and more or less unproblematic inasmuch as they can be expressed in terms of one common denominator (i.e. money and the maximization of profits)' (Kapp, 1977a, p. 212), when dealing with society the means and the ends – for which Kapp, like Myrdal, rejects the traditional dichotomy (Kapp, 1965, pp. 57 ff.) – cannot be conceived as predetermined. Rather, they 'need to be discovered and defined in a continuous interaction of factual research and the formulation of goals and priorities …; they are under discussion and need to be explored and can be defined only in the process of an action- or policy-oriented process of research' (Kapp, 1977a, p. 213). What Kapp suggests, consistently with the general purpose of satisfying human primary needs and maintaining ecological equilibria and social reproduction) is to formulate aims both in terms of safety standards and of social minima.

Once social priorities are chosen (via a democratic and transparent process), the next two steps are the definition of control policies able to steer the competitive economic process towards social objectives, and development planning, i.e., the phase in which general aims and objectives are translated into specific plans and detailed projects. For the former, Kapp was in favour of a large number of instruments (e.g. Kapp, 1974b, pp. 115

ff.). For development planning, he stressed the importance of feasibility studies: to be able to carry out sound planning 'such surveys must establish in considerable detail the technical and institutional interdependencies and implications of alternative plans' and include 'the selection of the technology as well as the choice of institutional and administrative arrangements needed to implement the project at reasonable levels of technical and economic efficiency' (Kapp, 1965, p. 71). As for the contents of the plans, Kapp again shows his institutionalist spirit, maintaining the need both to pay concrete attention to the local context and its characteristics (which is crucial in choosing, say, which technology to promote) and to strive towards relative self-sufficiency, encouraging the ability to self-protect from social costs deriving from the international division of labour and reduce economic and political dependence.

It is not a question of aiming towards autarky, but rather of

> relying, as far as possible, upon the country's own resources as well as upon public participation in the political decision-making process … [through] a policy that stresses the use of available resources and techniques and their modernization ... A policy of self-reliance 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 self-reliance and resistance to submission to foreign control must remain an essential objective of every viable national entity' (Kapp, 1997a., pp. 215–17).

14.7. CONCLUSIONS

One of the aims of this work was to introduce Kapp's approach and show its strong links with Myrdal's work and in general with the evolutionary-institutionalist tradition. Kapp maintained that circular cumulative causation has to be applied also to the bio-physical environment, not only to society and economy. This allowed him to show, in a coherent logical manner, the damage arising from an unregulated competitive system, especially, but not exclusively, for less developed countries. The role of public intervention appears then as crucial – especially under the moral imperative that Kapp assigned to economics and to economic policy, that is, to minimise human suffering and ensure continuation of human life on Earth.

Kapp's awareness of the highly complex nature of society prevented him falling into naïve top-down prescriptions. On the contrary, he demanded governance practices that favoured interaction between science and

stakeholders within a transparent democratic process aimed at defining goals and means dialectically.

It is my hope, in conclusion, to have given an adequate picture of Kapp's main ideas. If this is so, readers should now be persuaded that Kapp's work is interesting not only for the history of economic thought. His ideas are still topical and offer a consistent and original framework both for reflection on the role of public intervention and for the implementation of successful strategies and practices of sustainable development.

NOTES

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1. A second edition was published in 1963. The title was changed to *Social Costs of Business Enterprise* to testify to the new-found awareness that business in general gives rise to social costs, often in contradiction with its own institutional purpose. Both theoretical and empirical contents were modified and broadened. In 1971, a second edition of the 1950 book was published. Kapp added a new, and very interesting, introduction.
2. To my knowledge, Myrdal never clarified whether he was influenced by Veblen, although the similarity is high. Fujita (2006), reassessing Myrdal's CCC, shows the differences with the more successful Young-Kaldor's CCC and with the Veblenian one. See also Angresano (1997, p. 85).
3. Fujita (2006) maintains that the consideration of 'spread effects' makes Myrdal's approach more than a simple theory of polarization process.
4. See also Kapp and Kapp (1963, p. 430).
5. On Human agency within the Veblenian institutionalist tradition see Mayhew (2001).
6. For example, Ackoff (1960) and von Bertalanffy (1968), both cited by Kapp and with whom he corresponded (Berger and Elsner, 2007, p. 533).
7. For his *History of Economic Thought* Kapp selected many excerpts by Veblen and Myrdal that focus on social waste.
8. 'Problems of environmental disruption confront the social scientist with an unusually complex set of interdependencies and delayed cumulative effects' (Kapp, 1970, p. 838).
9. 'Social costs are not minor exceptions to the rule but are typical phenomena' (Kapp, 1969, p. 334).
10. The possibility of identifying a precise cause allows, at least in theory, responsibility for 'externalities' to be attributed. It is thus an essential premise for any tool, whether Coasian or Pigouvian, proposed by traditional economics.
11. Consistent with his institutionalist approach, he believed that needs have to be contextualised with respect to the social framework.

12. Note that the term 'substantive rationality' is not used in H. Simon's meaning. The adjective 'substantive' refers to the need to lend content to the neutral notion of economic efficiency to arrive at a 'concept of substantive rationality which would take account of actual human requirements' (Kapp, 1976a, p. 94). It is also worth noting, in relation to the production of luxury goods and arms, the close proximity to Georgescu Roegen's 'bioeconomic programme', whose writings are cited by Kapp.
13. The centrality of the stakeholders is today widely acknowledged, as testified by the emphasis on participatory processes. However, as we have seen, Kapp's position involves more than participation. An approach that highly reflects Kapp's ideas is Social Multi-Criteria Evaluation (Munda, 2004).
14. Kapp is aware of Georgescu Roegen's contributions: he cites the famous 'Energy and Economic Myths' of the *Southern Economic Journal* of 1975 and stresses the entropic nature of the economic process (Kapp, 1977b, p. 540).
15. Kapp, for example, states: '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' (Kapp, 1970, p. 846)
16. Kapp notes, 'it is inevitable that in a market economy dominated by the desire to minimize entrepreneurial costs and to maximize net entrepreneurial returns, social costs and environmental damage tend to be "externalized" as far as possible within the existing institutional and legal framework, while appropriable monetary benefits (profits) will be internalized. Even if an individual firm wanted, and would be financially able, to consider the negative environmental effects of its products and its residuals in its allocation decisions, it could do so only at the price of reducing its own relative competitive position and its earning capacity' (Kapp, 1977b, p. 532).
17. '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 …' (Kapp, 1969, p. 335).
18. It should be considered that this leads to a 'secondary redistribution of real income primarily (but not exclusively) to economically weaker members of society as well as to future generations' (Kapp, 1976a, p. 99).
19. '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 so-called free-market economy, in which exchanges and prices have long ceased to be free and have in fact been transformed into prices administered by oligopolists, may be compelled to transform itself under the pressure of the exigencies of the environmental crisis and the deterioration of living conditions into an economy which increasingly will have to take into consideration the social use values or the quality of life. ... The author has no illusions about the fact that such a transformation will come about by itself and without struggle. It calls for a genuine democratisation of the state (that is to say, of the centre of political power) and of the economy at all levels, i.e. at the micro level of the firm, the regional and the central level of policy-making' (Kapp, 1974b, p. 138).
20. The theme of environmental indicators is fairly dear to Kapp who considers them 'indicators of social use value' (Kapp, 1974c).
21. It is rather common to look for such synthetic indexes. Well-known examples are H. Daly's *Index of Sustainable Economic Welfare* (ISEW), the *Genuine Progress Indicator* (GPI), Wackernagel and Rees's *Ecological Footprint*.

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