


*Development, society and the environment: reading
Karl William Kapp (1910-1976)*

TOMMASO LUZZATI


Università di Pisa

<http://www.dse.ec.unipi.it/~luzzati/>

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Why reading K.W. KAPP?

- 1. Still highly relevant in the analysis (and policy) of economic development and environmental degradation*
- 2. Many keystones of ecological economics are already in Kapp 1950*


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Karl William Kapp

Steppacher R., 1994, "Kapp, K.William", in *The Elgar Companion to Institutional and Evolutionary Economics*, pp. 435-441, Edward Elgar, Aldershot.

- 1910 born in Königsberg (Germany)
- Degree in Economics and Law, Berlin University
- 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
 - 1961-1962 Indi: Rajasthan University in Jaipur
 - 1964 Philippine University in Quezon City.
- 1965 University of Basel (Switzerland)
- † 1976, 10 april, Dubrovnik (conference)

OLD institutionalist. Major influences: T.Veblen, J.M.Clark, G.Myrdal, A.Lowe, F.Perroux K.Polanyi.

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1950 *The Social Costs of Private Enterprise*. (reprinted 1971)
II ed.: 1963 ... of **Business Enterprise**)
→ Social costs: wide category, radically different from externalities.

1965-1977:

many articles, especially on *Kyklos*
on "economic development & environmental degradation"
Critique against traditional development policies (field experience in Asia!).

Emphasis on

- institutional context and local conditions
- physical and social variables,
- environmental constraints,
- basic human needs

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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.)

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★ relationship between Kapp'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

Kapp 1976 The open system character

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.

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 ?**

Ropke 2005, 279

Kapp (1910–1976) [...] with his very early application of an institutional perspective to environmental issues, including the points on pervasive and systemic externalities,


basic uncertainty and

interdependencies of environmental and social systems

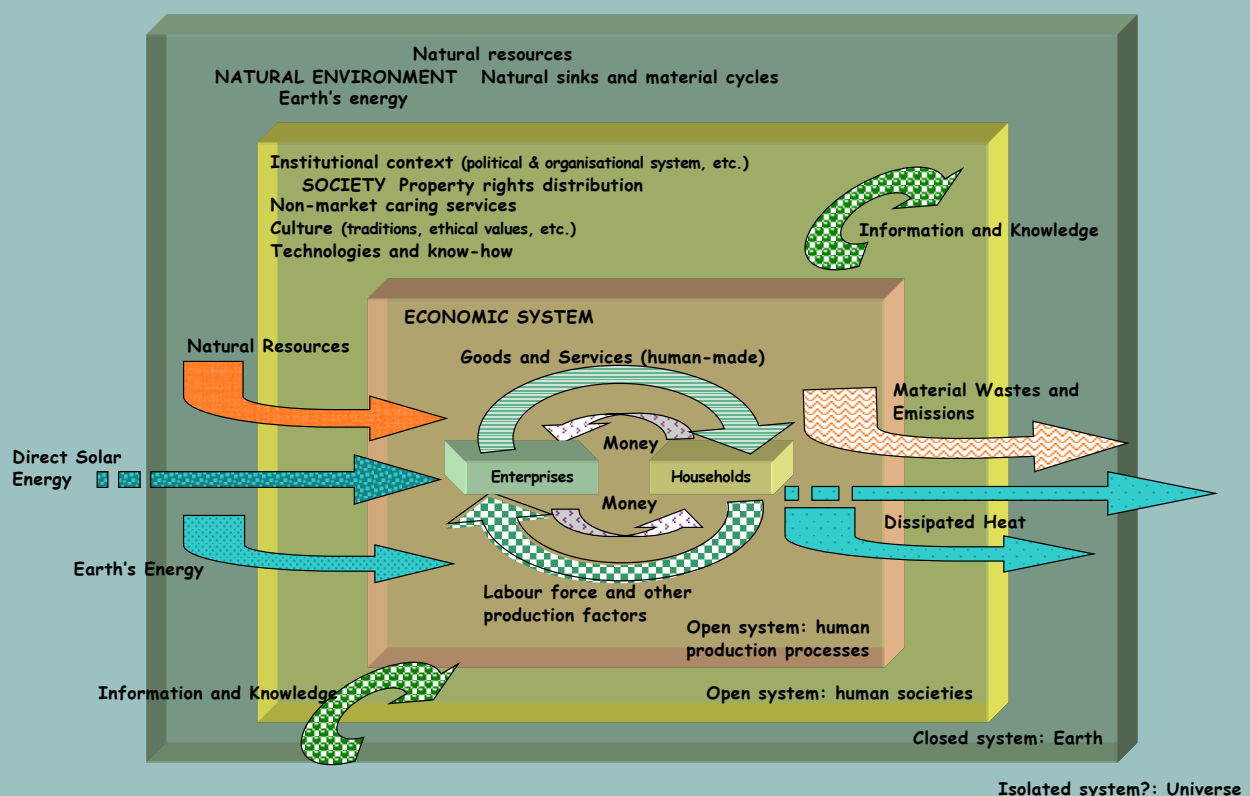
— **ideas basically in accordance with the foundational ideas of ecological economics.**

- The economist Karl William Kapp, who may be regarded as the first modern environmental economist ...


Peter Söderbaum, 1992, ecolecon

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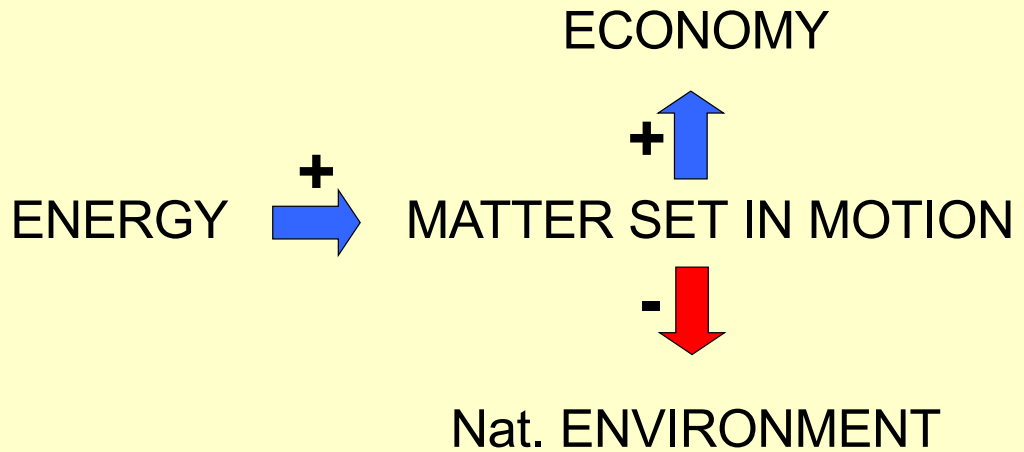
The economy as an open (evolving) system




JMAlier: The environmentalism of the poor

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An implication: energy consumption as a rather general indicator



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open system

OPEN SYSTEM

and its implications

implications

implications implications

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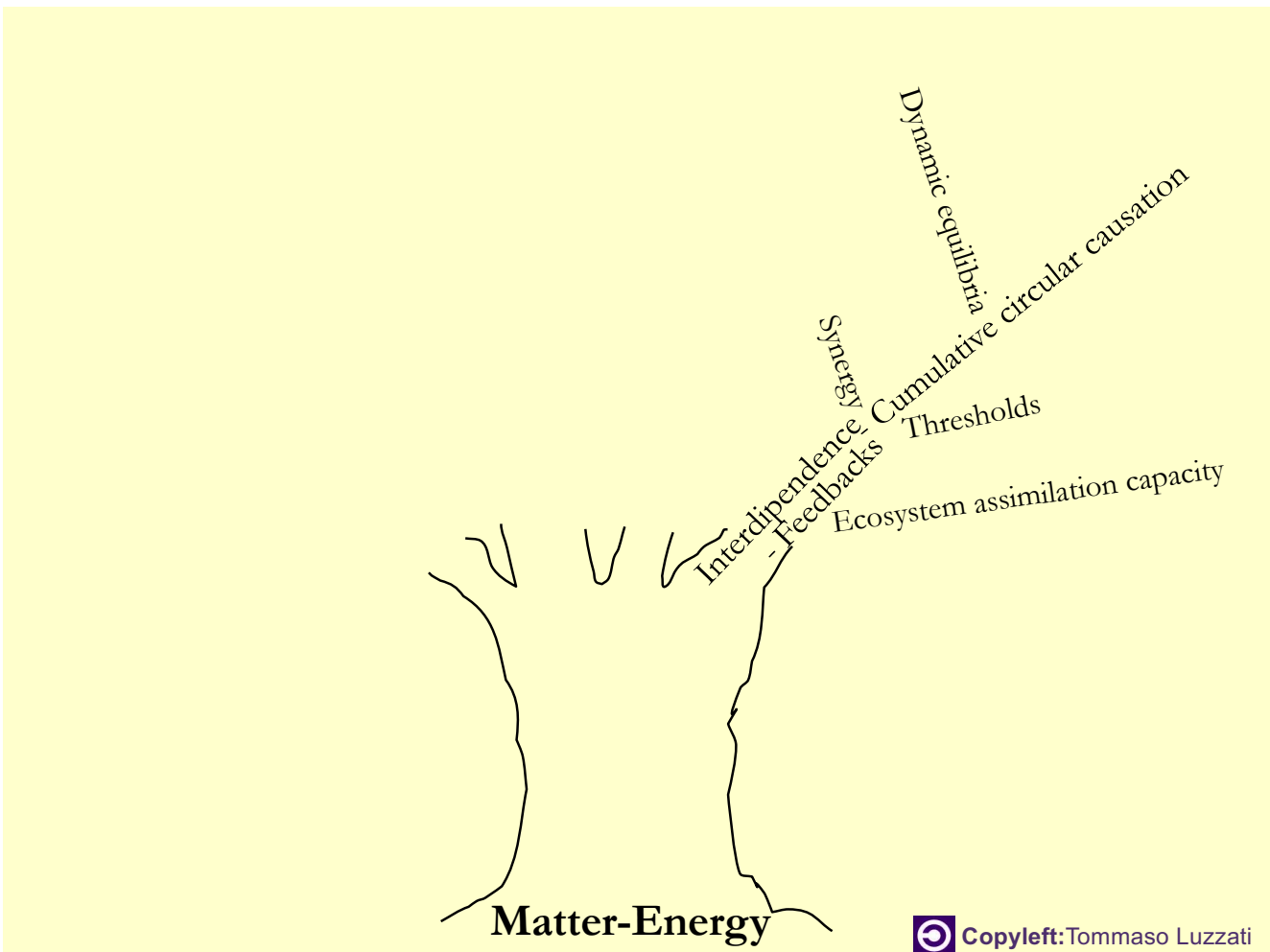
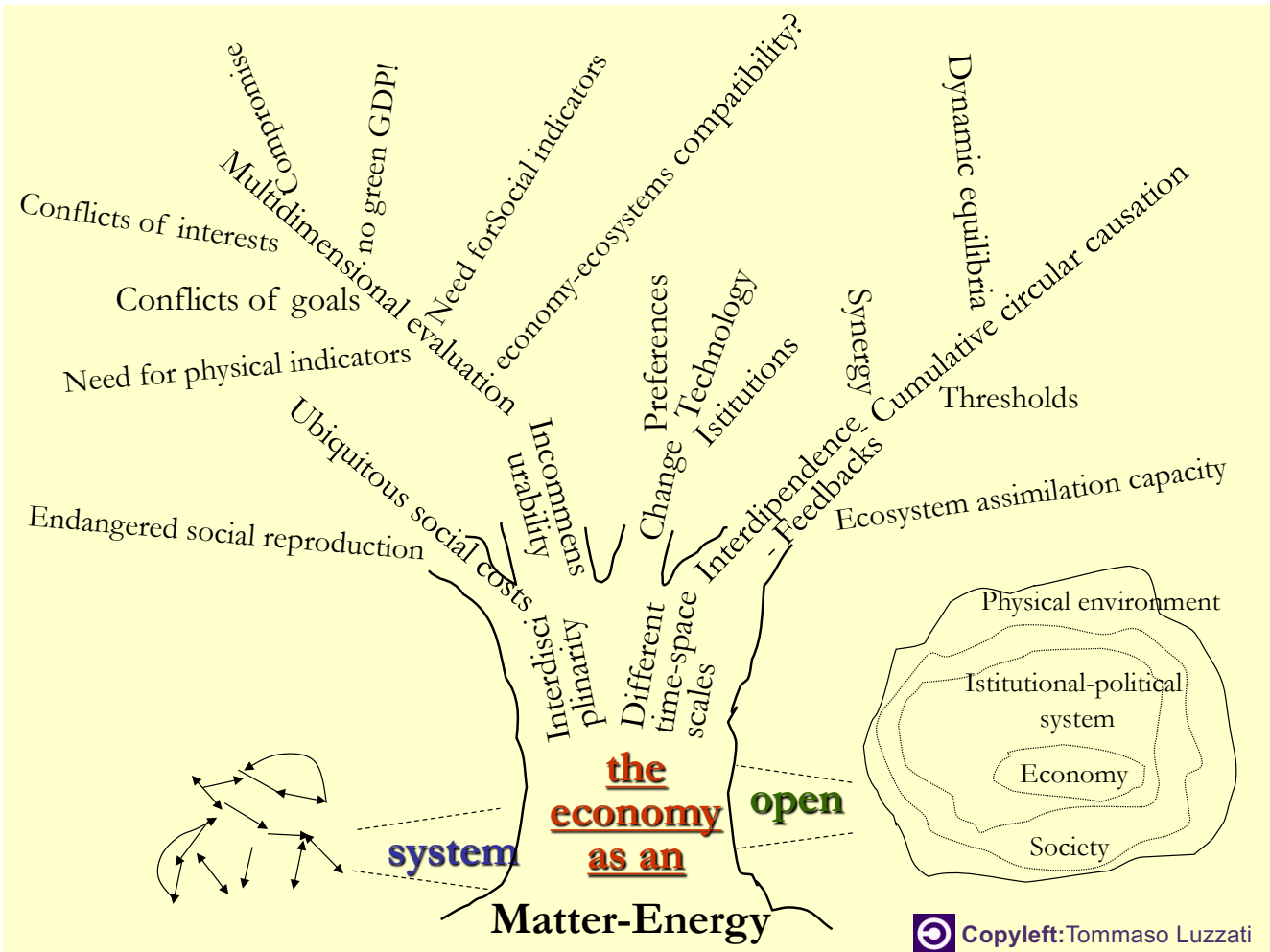
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Myrdal cumulative causation


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 [...] 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**.

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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 W.K., 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

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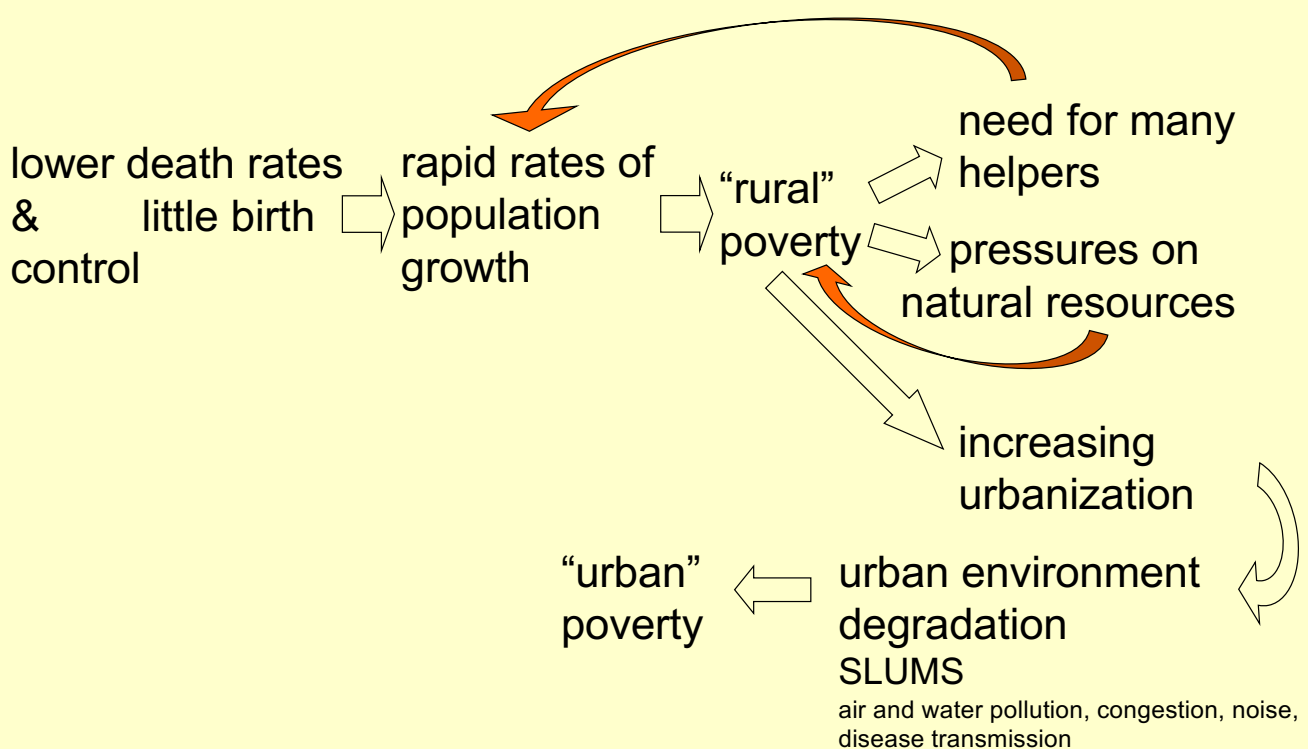
Myrdal:

- CUM CAUS → PERSISTENT INEQUALITY
→ INTERVENTION

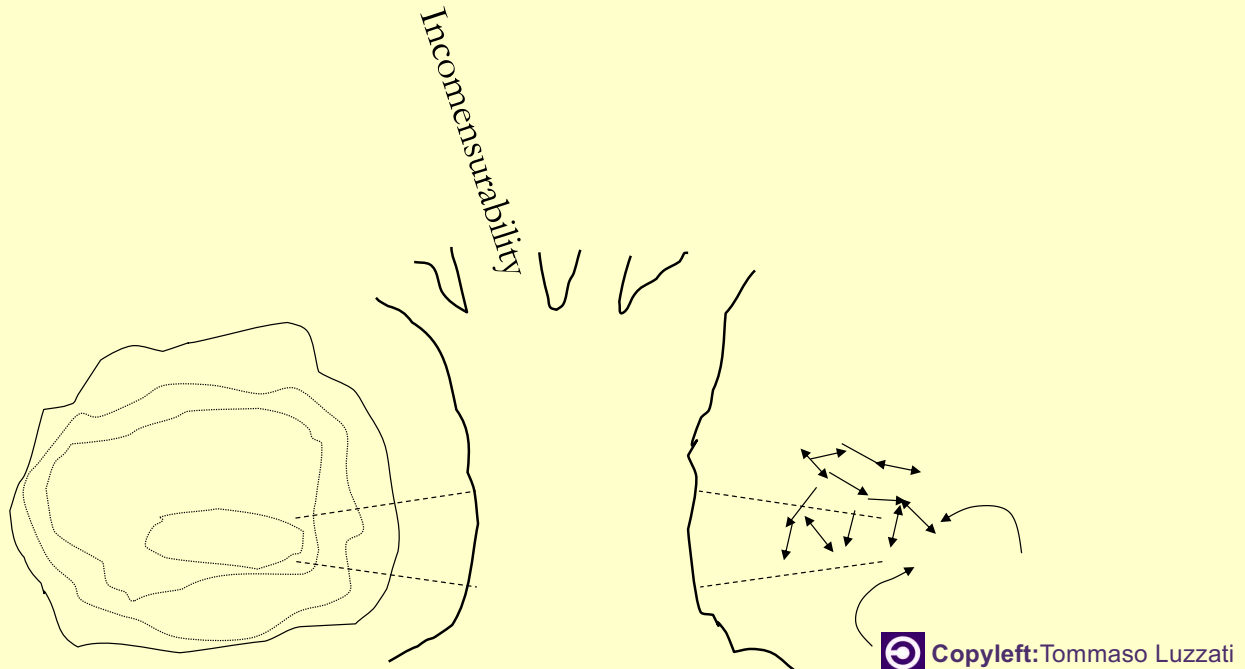
As we will see,

- Kapp's analysis implies much more

An example of cumulative circular causation



incommensur.



“Otto Neurath (1882-1945) [...], in the so-called Socialist Calculation debate of the 1920s, he defended a democratically planned economy based **on physical accounting in energy and material terms** (Naturalrechnung) influenced by Popper-Lynkeus’ and Ballod-Atlanticus’ quantitative, realistic “utopias”.

Neurath explained that in order to compare two economic plans, achieving the same objective, a capitalist entrepreneur would use **money values**.

However, in a socialist economy, how would we be able to **compare** a plan using **more human labour and less coal**, with a plan using **less human labour and more coal**?

[...] a decision would also need appraisals of the uncertain development of future technologies (hydropower, solar energy), and also our moral regard for future generations would play a role in the comparison.

Neurath introduced therefore the idea of **incommensurable values** in the economy. ...”

Joan Martinez-Alier, MARXISM, SOCIAL METABOLISM, AND ECOLOGICALLY UNEQUAL EXCHANGE, 2003, p. 12-15

www.humecol.lu.se/woshglec/papers/martinez-alier.pdf


KAPP was influenced by Neurath(???)

incommensurability

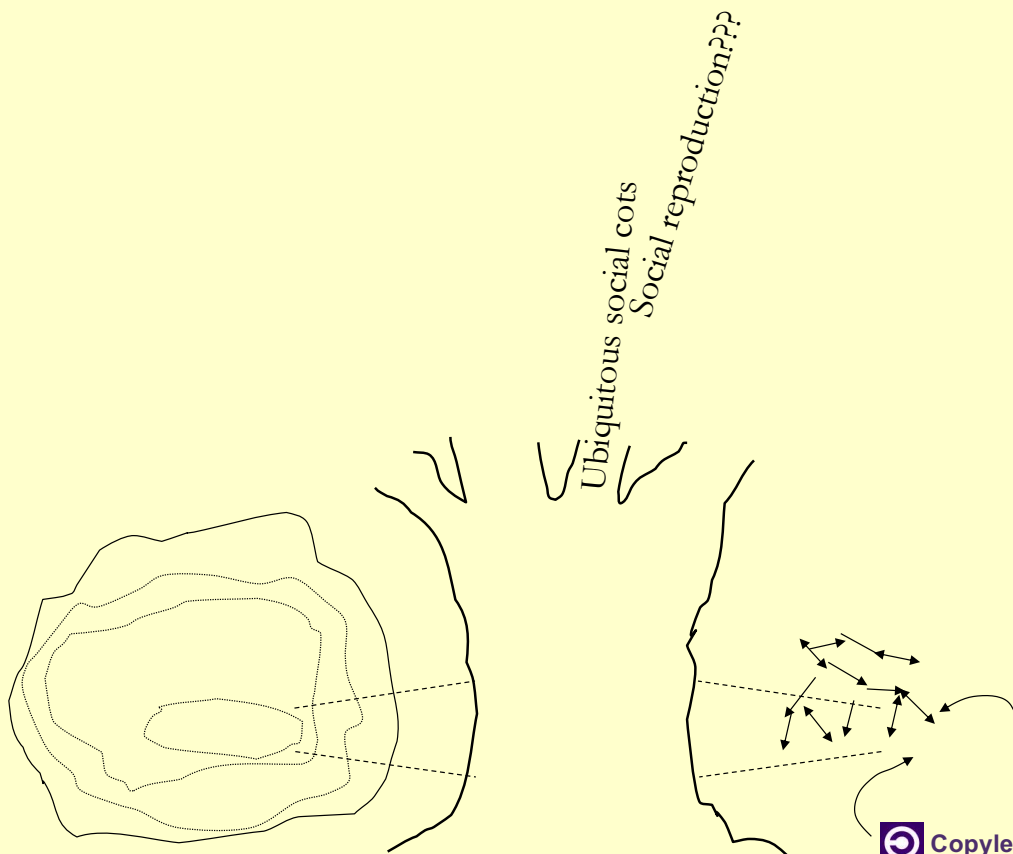
The **heterogeneous character** of the disrupting flows of damages and the **complex interdependencies** to which we have referred above preclude any measurement and evaluation in terms of a **common denominator** (unless a common denominator be formulated in substantive terms, e.g. in terms of objectively 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)

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social costs:



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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

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“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](#)

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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 (345)
 - 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”
- ▶ “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)

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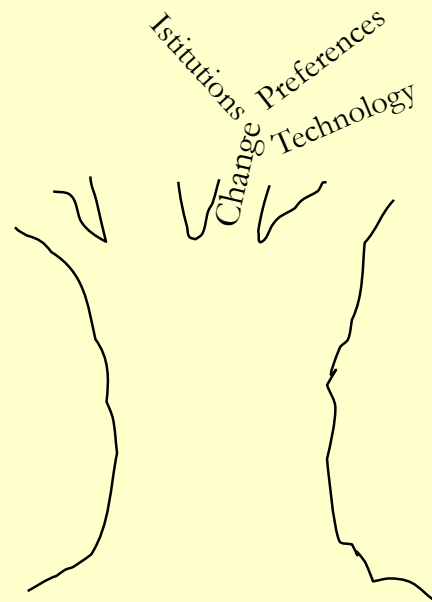
▶ **“Any attempt to adjust the concept of social costs in such a manner as to incorporate it into the existing body of formal economic theory can only have the effect of narrowing and thereby neutralizing the critical implications of the concept by depriving it of its central content and aim: namely to call attention to highly relevant and potentially destructive side-effects of productive activities not recorded in traditional cost accounts” (346)**


▶ “Such a widening of the concept of social costs (and of social benefits) implies radically new modes of thinking” (347)

▶ “Economic analysis will have to tackle these tasks [] if it takes seriously its claims to remain an empirical science which intends to place human needs into the center of its analysis” (347)

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change:



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Means ends new model of man

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)

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♪ policy implications: ultimate ends and intermediate goals

ends

ULTIMATE ENDS

1. minimisation of human suffering 2. human survival

→ emphasis

❖ on socio-economic reproduction

❖ dynamic equilibria nature-humans

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

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

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

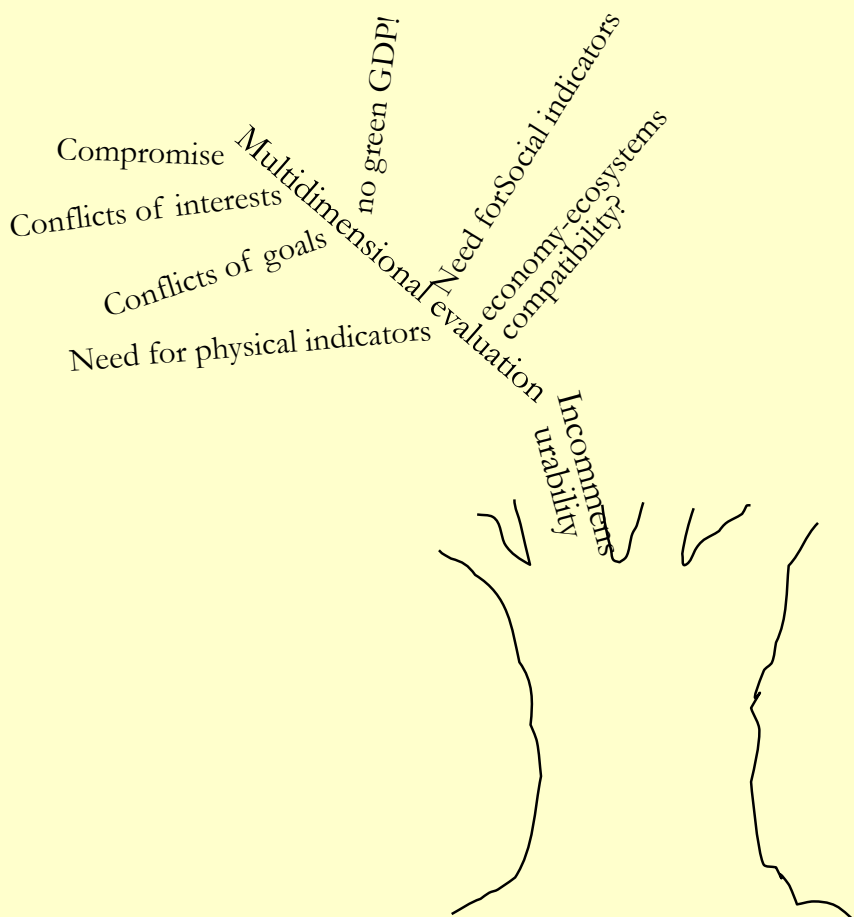
Just as individuals [...] society is faced with a variety of **competing needs** as well as with **conflicts of interests** among its members over the relative importance of such needs and the use or allocation of scarce resources.

The solution of these conflicts and the establishment of a workable consensus as to priorities must be considered as essential elements of **rational decision making** [...]

The fact that the **agreement** takes the form of **compromise** or a consensus on **actual** individual or group requirements

makes the decision, socially or politically speaking, **workable** and gives it a **pragmatic rationality** which a merely formal rationality cannot claim.

(1965 economic devel. in a new perspective: existential minima and substantive rationality Kyklos, 70)



Kyklos 1970: Environmental disruption and social costs: a challenge to economics

Teoria Economica
crescente formalismo e astrazione

Degrado Ambientale
natura e crescente gravità

Interesse
opinione
pubblica e
politici

60

58-59

57

Limitato oggetto di analisi:

1) Scelta e allocazione di risorse scarse per
2) DATE obiettivi alternativi 3) DATI da parte delle unità
economiche individuali (micro) 4) nel contesto delle
transazioni di mercato (volontarie e consapevoli)

*Dati=statici e/o esogeni

Complesse
interdipendenze e
causalità cumulativa,
ad es. sinergie. NON
LINEARITA'. Non
INVARIANZA al
modificarsi della
scala, RITARDI.
DINAMICITA'

Rischio di
EQUIVOCO: si
guarda a degrado
ambiente
NATURALE ma non
ai costi sociali nel
complesso (anche
60)

61

COSTI SOCIALI originano da COMPLESSE INTERDIPENDENZE
che: 1) sono flussi fisici non di mercato (anche p.64)
2) non sono risultato di scelte (problema di consapevolezza), effetti
tecnologia e istituzioni (61)

Si ricrea unità politica
con il rischio di
sottovalutare
l'importanza del
fenomeno e la sua
origine, cioè il sistema
economico
tradizionale. Rischio
di politiche inefficaci

Degrado ambientale come fallimento del mercato e
esternalità (62)

Ruolo marginale delle esternalità

*Inadeguatezza esternalità
ambientali rispetto a realtà! (62)*

Ignorata la non autonomia individui e ruolo unità micro più forti (63). Non studiati i bisogni "oggettivi"

Oggetto d'analisi: NO le relazioni cumulative causa-effetto livello macro-economico(63)

Altri problemi: 1)NO mano invisibile! 2)Sistema prezzi non tiene conto flussi fisici non mercato → fallace. 3) Contabilità nazionale: idem → riduzione K naturale senza che ce ne accorgiamo.

Riduzionismo monetario: no soluzione (66)



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



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EKC??

Unity of economy, society and natural environment. According to Kapp economic **development**, social and natural environment cannot be analysed separately.

It is dangerous to consider environmental degradation as an unavoidable cost of the economic development as environmental degradation and social costs have a negative effect on the cumulative process of economic development

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).

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1977, Development and Environment

Developing countries and environment:

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

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

UNEP plan action (1973) need to “adjust technologies to local ecosystems, . . . rather than applying imported technologies which may have harmful effects”

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Traditional development policies

Traditional policies (**environmental degradation = unavoidable cost of economic development**) are doomed to failure as they are monodimensional (economy), 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 →

HIGH SOCIAL COSTS:


- ▶ “the development process (traditional style) has been accompanied in many countries with high social costs not only in terms of **ecological imbalances and overexploitation of resources**
- ▶ But also in terms of socioeconomic disruption, such as the displacement of labor and rising unemployment, greater inequalities of income, deterioration of urban living conditions, [...];
- ▶ While the demand for less essential and **luxury goods** has been increasingly satisfied by **foreign imports**
- ▶ The development process has thus been associated with a disruption of the physical and social environment including social and personal relationships. [...].
- ▶ The crisis of traditional development strategies is thus reflected in a general **dishumanization** of the conditions of individual existence and group relations, which tends to **cumulatively undermine the fabric of society and culture** (208)

Towards alternative strategies and methods of planning

What is needed? (209)

- to “recognise that the environmental disruption and social costs are important casual factors that play a significant role n the cumulative process of development
- 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 ...
- ^ to recognise the importance of data indicators and empirical research

^The systematic use of the concept of social costs as an analytical instrument for the determination of causal interdependencies within the context of the development process is therefore an important research task likely to yield new knowledge relevant both for the definition of social costs and the formulation of development strategies and policies (Kapp 1969, 340)

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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 decisio-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 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 surrenering their independence, their autonomy of decision making, and their choice of policy opitons 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)

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- 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

1950, *The Social Costs of Private Enterprise*, (reprinted 1971, Schocken Books)

1963, *The Social Costs of Business Enterprise*, (reprinted 1978, Spokesman Books, Nottingham).

1965, “Economic Development in a New Perspective: existential Minima and Substantive Rationality”, *Kyklos* 17 (1), pp. 49-79.

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