

# Human needs, sustainable development, and public intervention: learning from K. W. Kapp (1910-1976)

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## Abstract

Karl William Kapp (1910-1976) was among the many economists that advocated an active role for public intervention in the economy. His analysis and his prescriptions, however, were rather peculiar, outside the mainstream, and also rather original with respect to other heterodox positions. This paper aims at briefly summarising his position and assessing his arguments. In particular it points out that that one of his major contributions was to combine the notion of cumulative causation process a la Myrdal with the view of the economy as an open system, a system embedded not only within the society but also within nature. This framework implies, as a logical consequence, that unregulated economic processes may not be able to deliver economic, social, and environmental sustainability. Kapp goes beyond this and shows that governance is indeed a must due to the very nature of the economic competitive process and the high social costs it gives rise. This is particularly true within Kapp's thought since he adopted a humanist position that entailed as the main policy goal the minimization of human suffering.

**Keywords:** Kapp, economic development, social costs, incommensurability, multidimensionality, existential minima, science, democratic processes

## 1. Introduction

The role and the 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 State intervention; his analysis, and the involved prescriptions, however, 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's life on Earth, posing himself as an advocate of 'rational humanism'. In advance of time, in the 1950s he was already aware that unregulated economic processes deeply impair human environment (both social and natural environment). Given these premises, he saw public intervention as to be aimed at protecting human environment, both in the short and the long run. It has not to 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 and constrained by the ethical goal of human needs satisfaction.

This paper will outline KW Kapp's position, with reference both to one of its origins, Myrdal's approach (see also Panico and Rizza in this volume), and to the analytical framework elaborated by the German economist. The next section shortly introduces the life and works of

Kapp. The third section focuses on circular cumulative causation, a notion that Kapp mainly derived from Myrdal and that was central in his thought. The fourth section is aimed at showing in which respects Kapp moved beyond Myrdal. The fifth section attempts to give a unitary picture of his thought, while the sixth focuses on his position of development policies.

## **2. A biographical note**

The approach sketched above was the outcome of the work of a lifetime which came to full maturity in the 1960's. He was born in 1910 at Königsberg in Germany, 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 at 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<sup>1</sup>.

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 the work 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.

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<sup>1</sup> For more details, see the profile by Steppacher (1994).

Publication in 1950 of the book *The Social Costs of Private Enterprise*<sup>2</sup> may be considered the first significant stage in Kapp's thinking. In the subsequent years, in several books and articles, he progressively refined his key concepts. In particular, his ideas got a mature exposition and synthesis in publications appeared between the end of 1960s and the beginnings of the 1970s, many of which appeared in *Kyklos*. Unfortunately, the mature stage of his scientific production, was suddenly interrupted since he got 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.

### 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, 381). In the introduction 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, for instance Myrdal (1978). According to Samuels (1995, 580), for instance, institutional economist claims that "the economy is more than the market" and that "is always a process of becoming", which Kapp expresses as the need of taking "account of the open and dynamic character of the economy" (Kapp KW and Kapp L. 1963, 382).

The first claim, that "economic problems must be viewed within a broad social and political framework" (Kapp KW and Kapp L. 1963, 381) is involved 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, 19, also in Kapp and Kapp, 1963, 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 continued to our days (modern process philosophers include H. Bergson, J. Dewey, A. N. Whitehead). Within economics, already J.S. Mill in his *System of Logic* (1843) focused on processes

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<sup>2</sup>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 give 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.

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” (ibid., 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 cumulating 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 nor ultimate causes neither end states can be found 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 e 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, 243). To be fair, however, as Berger and Elsner (2007, 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”<sup>3</sup> (Kapp KW and Kapp L. 1963, 385).

With the help of many excerpts taken from Myrdal’s *Economic Theory and Underdeveloped Regions*, Kapp (ibid., 417-434) draw attention on “the notion of a circular casual relationship of all relevant factors in a social system” (ibid. 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 regions inequality. More

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<sup>3</sup> 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, 85).

specifically “backwash” effects largely dominates spread effects in underdeveloped regions, so that even absolute inequality may increase<sup>4</sup>.

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 XX, also in Kapp and Kapp, 1963, p.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 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 ... 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 XX, also in Kapp and Kapp, 1963, p.430).

Kapp fully endorsed Myrdal’s position. He did it to such an extent that he will 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, 217).

Before moving to the next section which focuses on Kapp’s contribution and on how he used Myrdal’s position, 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)

“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)

“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

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<sup>4</sup> Fujita (2006) maintains that the consideration of “spread effects” makes Myrdal’s approach to be more than a simple theory of polarization process.

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 on the power for 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 are in the core of the institutionalist paradigm, although with different emphasis in each author. Differently from Veblen, Myrdal and Kapp emphasised the possibility and the need for action. Moreover, Kapp was very concerned also with the individual level and adopted Mill’s and Veblen’s notion of human agency according to which individuals are not passive recipient 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 1899, 390). In other words, Kapp took individuals as active, learning and social beings<sup>5</sup>. Actually, he was rather optimistic since 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).

#### **4. Extending Myrdal**

As Panico and Rizza (this volume) point put, Myrdal’s position is generally summarised by three core ideas - the cumulative causation approach, the consideration of socio-cultural factors, the impossibility of value free theory, which involves the need of explicit value premises. Myrdal’s most important value premise is equality so that his approach becomes a theoretical foundation of egalitarian policies.

Kapp took a step further. His basic analytical extension of Myrdal’s approach was a further opening of the economic system, not only to society system, but also to the bio-physical system, that is, he considered humans not only as part of the society but also of the natural environment.

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<sup>5</sup> On Human agency within the Veblenian institutionalist tradition see Mayhew 2001.

This was originated in Kapp's early interest and adherence to general system theory, substantially supported<sup>6</sup> in the 1960s and which was to assume a key role in ecology and had an 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, 93). Moreover, as Georgescu Roegen, he was well aware that also societies have a physical metabolism that cannot be left out of the analysis. As Berger and Elsner (2007, 532-533) point out, 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 "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

"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, 10)

It is the very consciousness of the biophysical dimension that makes Kapp analysis and policy prescriptions very peculiar and broad. For instance, social costs, a major reason of concern among institutional economists<sup>7</sup>, acquire a special light. They are seen as very extensive interdependencies<sup>8</sup>, 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<sup>9</sup> and cannot be reduced to simple cause-effect<sup>10</sup> mechanisms.

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<sup>6</sup> For example, Ackoff (1960) and Bertalanffy (1968), both cited by Kapp and with whom he corresponded (Berger, Elsner, 2007, 533).

<sup>7</sup> It is indicative Kapp's selection, for his History of Economic Thought, of many excerpts by Veblen and Myrdal that point out on social waste.

<sup>8</sup> "Problems of environmental disruption confront the social scientist with an unusually complex set of interdependencies and delayed cumulative effects" (Kapp 1970, 838).

<sup>9</sup> "Social costs are not minor exceptions to the rule but are typical phenomena" (Kapp 1969, 334).

<sup>10</sup> 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.

Combining social costs with CCC, Kapp attacked positions like Hirschman's ones 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, 205). The recipe of 'first the economy, then the environment' is held by Kapp 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., 209) has to be abandoned. (See also Kapp 1974b, 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, 91; see also Kapp 1977a, 205).

The material nature of human beings made him also focus on basic needs<sup>11</sup>. As a stated before, he believed that public intervention must be guided "by the social and *moral* imperative of minimizing human suffering" (Kapp 1977b, 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, 136)<sup>12</sup>.

Finally, 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 actually the pride of place given by Kapp to ethics and politics. The decision as to which avenues to

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<sup>11</sup> Consistently with his institutionalist approach, he believed that needs have to be contextualised with respect to the social framework.

<sup>12</sup> 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 1976, 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.

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.<sup>13</sup>

## 5. A synthesis of Kapp's approach

Having sketched some of the key elements of Kapp's approach, this section will connect his more recurrent and significant ideas into a unitary framework, for which an attempt of visualisation is given in picture 1.

A significant starting point can be considered his 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 following years, he did not hesitate to define it as "a 'system of non-paid costs' which generates high social costs ad where 'power' of shifting costs onto others (*cost shifting*) is highly relevant<sup>14</sup> (e.g. Kapp 1969, 335). In other words 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.)<sup>15</sup>.

The cornerstone was, in my opinion, the very consideration of biophysical dimension of society and life. While Myrdal had to derive his belief on the irrationality in the market by observing stagnation (as evidenced in the quote in section 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, 95).

His focus on the degradation of the physical and social environment was particularly helpful in relation to economic development processes. The importance of this relation emerged especially after Kapp personally experienced, during his lengthy study periods in Asia, the negative effects of traditional development policies, focussing on the technical and economic

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<sup>13</sup> The centrality of the stakeholders is today widely acknowledged, as it is 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).

<sup>14</sup> "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, 335)

<sup>15</sup> 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 1976, 99).

efficiency of investment projects and paying little heed to the institutional and cultural context or to impacts on social and physical equilibria. Particularly two of his last articles (Kapp 1974b, 1977a) show very effectively the need of an integration between development and human environment.

To fully appreciate the logical importance of the biophysical dimension in Kapp's framework, let us briefly consider the many analytical concepts it involves, first of all the notion of the economy as an open system. The vastness of the implications of this notion, which is explored in details in (Kapp 1976), derives both from "opening" the economy (to the social and physical environment) and from adopting a systemic perspective. Interdisciplinary research (e.g. Kapp 1977b, 528) is then a must. To it, a natural companions is the acknowledgment that phenomena under our observation both unravel on various spatial-temporal scales (e.g. Kapp 1976a, 99; Kapp 1977b, 529 ff.) and need non-equivalent descriptions (see, e.g., Giampietro 2003). In other words, despite a common material and energy base<sup>16</sup> (see Kapp 1977b, 531-32), phenomena shows epistemological and ontological incommensurability that cannot be reduced to a common denominator<sup>17</sup>. Within the biophysical systemic perspective, phenomena continuously change (including the change in preferences, technology and institutions (e.g. Kapp 1976a, 102) and show the typical non-linearity of complex systems (such as threshold effects and synergies, see e.g. Kapp 1976a, 97 ff., or Kapp 1977b, 529 ff.). Furthermore, as seen before, openness to physical and social system makes very visible the extent of the social costs in current competitive market economies<sup>18</sup>. A defence of social reproduction against social costs, i.e., the spontaneous disorder of an unregulated market, is therefore a must.

This needed social control should go through the definition of aims that are socially desirable and that include "the maintenance of dynamic states of ecological and economic balance" (Kapp 1976a, 101). According to Kapp, such objectives may 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

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<sup>16</sup> 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, 540).

<sup>17</sup> 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, 846)

<sup>18</sup> Kapp notes, 'it is inevitable that in a market economy dominated by the desire to minimize entrepreneurial costs and to maximise 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, 532).

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, 317)

In other words, social control has to be implemented through democratic processes<sup>19</sup> which should ensure a compromise among the many interests and conflicting aims (see, e.g., Kapp 1976a, 100; or Kapp 1977b, 536-7), guarantee social reproduction (intergenerational equity), and obey to “the social and *moral* imperative of minimizing human suffering” (Kapp 1977b, 538) (intragenerational equity).

The first need for his proposal is, of course, a wide range of social and physical indicators<sup>20</sup> (see e.g. Kapp 1977b, 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, 97) showing that, in the context of social evaluation, “all monetary evaluations” are “problematical if not indeed unacceptable and cognitively irrelevant” (Kapp 1976a, 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 (Kapp 1976a, 101)” of the environmental damages and of the public goods and services. Kapp, in other words, considers it neither sensible nor effective (see e.g. Kapp 1977b, 534) to reduce real-world complexity merely to an economic dimension, expressing, for example, serious doubts about “current proposal of ‘deducting’ social costs from gross or net national product measurements” (Kapp 1976a, 104). As Georgescu Roegen, Kapp criticises the use of synthetic indexes to express, for instance, the ‘true’ value of goods and services<sup>21</sup>. 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, 100).

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<sup>19</sup> “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, 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, 138).

<sup>20</sup> The theme of environmental indicators is fairly dear to Kapp who considers them “indicators of social use value” (Kapp 1974c).

<sup>21</sup> 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*.

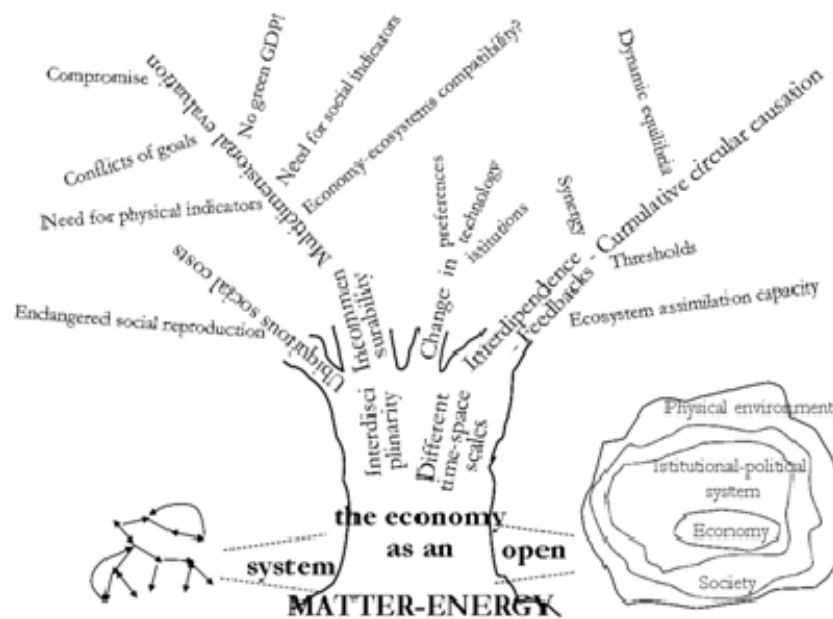


Figure 1: The Economy as an open system and its implications

## 6. Economic development policy

As Myrdal, Kapp was very interested in development, extending in some respects Myrdal's perspective. Their integrated approach is particularly helpful. Actually it is the one-dimensional vision, focused only on the economic sphere, that has produced policies poorly connected to local realities and the socio-institutional context, often bringing about "new dependencies and domination effects" (Kapp 1977a, 206) between developing countries and their industrialised 'partners'. Kapp took, for instance, green revolution as an example of a wrong 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, 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, 103). The outcome envisaged by Kapp is “a division of labour highly problematical for the LDCs in the long run” (Kapp 1974b, 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, 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, 104).

In the previous section, the importance attributed by Kapp to indicators was mentioned. Actually the first step for building a development strategy (Kapp 1974b, 106 ff. ; Kapp 1977a, 209 ff) – as it is now fairly consolidated – 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 about 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, 212), when dealing with society the means and the ends – for which Kapp as Myrdal rejects the traditional dichotomy (Kapp 1965, 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, 213). What Kapp suggests (consistently with the general purpose of satisfaction of human’s primary needs and maintaining ecological equilibria and social reproduction) was to formulate the aims especially in terms of safety standards and social minima - particularly valuable due to their nature of outcomes of a transparent process of policy determination of social priorities.

Once social aims are chosen, the next two steps are the definition of control policies able to steer the competitive economic process towards the 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 the large number of instruments (e.g. Kapp 1974b, 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, 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, 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” (Kapp 1977 a, 215) [... through] “a policy that stresses the use of available resources and techniques and their modernization (*ibid.*, 216) [...] A policy of 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 self-reliance and resistance to submission to foreign control must remain an essential objective of every viable national entity” (*ibid.*, 217)

## 7. Conclusions

The aim 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 potential damages arising from an unregulated competitive system, especially, but not exclusively, for less-developed countries. The role of public intervention is then shown as crucial - especially under the moral imperative that Kapp assigned to economics and to economic policy, that is, minimising human suffering and ensure continuation of human’s life on Earth.

His awareness of the highly complex nature of society prevented him to fall into naïve top-down prescriptions; on the contrary he asked for governance practices that favours the interaction between science and stakeholders within a transparent democratic process aimed at defining dialectically goals and means.

It is my hope, in conclusion, to have given an adequate picture of Kapp's main ideas. If this is true, readers should have become convinced 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 actual implementation of successful strategies and practices of sustainable development.

## 8. References

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