GUNNAR MYRDAL REVISITED:
CUMULATIVE CAUSATION, ACCUMULATION AND LEGITIMISATION

The aim of this paper is to provide a reconstruction of Myrdal’s analysis of the factors determining the path of accumulation, in view of the pivotal role played by political institutions in promoting it. It will be shown that Myrdal’s theory of cumulative causation, combined with his idea that consensus on the existing social order is a “created harmony”, is a powerful analytical tool in understanding a key contradiction of capitalist reproduction (particularly in a neo-liberal regime): namely the trade-off between accumulation and legitimisation.

Keywords: Gunnar Myrdal, accumulation, welfare state, political institutions
JEL: B25, H11, E25

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1 - Introduction

Gunnar Myrdal’s contribution can be regarded as diametrically opposed to the Walrasian picture of the functioning of market economies on two main grounds. First, the idea that the economic process does not develop in equilibrium conditions, and that – by contrast – disequilibrium is the normal outcome of the dynamics of deregulated market economies. Second, the conviction that the power factor – in market relations as well in socio-political arena - plays a crucial role in economic theory (cf. Dostaler, Ethier, Lepage, eds., 1992; Applequist and Andersson, eds., 2004). In the Walrasian world, the absence of different degrees of bargaining power among agents is justified on the grounds that markets are in equilibrium, so that – as Samuelson (1957, p.894) maintained - “in a perfectly competitive market, it really does not matter who hires whom: so have labor hire capital”. By contrast, as stressed by Bowles and Gintis (2008), power relationships exist also in equilibrium, if one accepts the idea that power is strictly linked to the possibility of imposing sanctions, according to the following definition: “For B to have power over A, it is sufficient that, by imposing or threatening to impose sanctions on A, B is capable of affecting A’s action in ways that further B’s interests, while A lacks this capacity with respect to B”. A simple demonstration of this conclusion lies in Adam Smith’s argument that – due to the fact that ‘masters’ own a higher amount of resources than workers - they can wait longer to stipulate labour contracts, thus being in the position to impose sanctions (i.e. low wages) on workers, even in a full employment context (see Smith, 2001 [1776])

Of course, power is higher in disequilibria conditions. This is what Bowles and Gintis (2008) define “short-side power”, meaning– to return to Adam Smith’s argument – that unemployment reduces workers’ bargaining power. Power relationships are also in operation in the political arena, where –

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1 “A landlord, a farmer, a master, manufacturer, or merchant, though they did not employ a single workman could generally live a year or two upon the stocks which they have already acquired. Many workmen could not subsist a week, few could subsist a month, and scarce any a year without employment. In the long-run the workman may be as necessary to his master as his master is to him; but the necessity is not so immediate” (Smith, 2001 [1776], book I).
in view of the ‘capital strike’ thesis – firms are in the position to orient public policies, due to the threat of disinvestments and their international mobility.

The aim of this paper is to provide a critical reconstruction of Myrdal’s thought with particular reference to the political implications of the increasing income inequality (also in terms of geographical distribution) resulting from the ‘circular and cumulative causation’ mechanism (CCC)\textsuperscript{2}. In particular, this paper aims to: \(i\) provide a comprehensive critical re-reading of Myrdal’s works, on the grounds that his thought is unsystematic, that it often suffers from analytical ambiguities, and that relatively little attention has recently been devoted to his contribution\textsuperscript{3}; \(ii\) link his analysis to the contemporary contributions within the (radical) Institutional theoretical framework\textsuperscript{4}, also for an understanding of current macroeconomic dynamics. In particular, the paper will provide an interpretation of Myrdal’s thought based on the conviction that his contribution is relevant in rationalising the trade-off between accumulation and legitimisation and, hence, in focusing on a potential contradiction of the capitalist mode of reproduction. Specifically, capitalist reproduction requires policies designed to facilitate accumulation (which presupposes increasing income inequality) and at the same time, policies designed to ‘legitimate’ the existing social order (which imply decreasing income inequality). It will also be shown that this contradiction is more evident in a liberal regime, insofar as the threat of disinvestment on the part of firms and the prevailing ideological bias make it more difficult - compared to a Keynesian regime - to implement expansionary fiscal policies. In so doing, the re-reading proposed here aims at making Myrdal’s view on the dynamics of income distribution – as put forward, in particular, in Economic theory and under-developed regions – consistent with his theory of “created harmony”, as formulated in Beyond the welfare state.

The exposition is organized as follows. Section 2 deals with the cumulative causation theory and its relevance to the analysis of the dynamics of income distribution. Section 3 provides a reconstruction of Myrdal’s view on the “created order”, and section 4 concludes.

2 – Capitalist reproduction in a CCC regime: the accumulation function

According to Myrdal, capitalist reproduction is necessarily associated with the increasing divergences between ‘developed’ and ‘under-developed’ areas and, more generally, it requires increasing unequal income distribution. The argument can be summarized as follows. Let \(A\) be an area where, for historical reasons, an agglomeration of firms exist, and \(B\) a peripheral area, where a small number of small firms operate. Firms operating in area \(A\) experience “agglomeration economies”, thus expanding their output compared to area \(B\). The expansion of output, in turn, generates an increase in the demand in that area generating, as a consequence, an incentive – on the part of other firms – to relocate to \(A\). By contrast, firms operating in area \(B\) face a decline in demand and, insofar as it is technically possible - they move to area \(A\). As a result, the spontaneous outcome of a deregulated market economy is to generate (or amplify) regional divergences, due – \textit{prima facie} - to the fact that agglomeration is associated with increasing returns. Accordingly, market forces tend to spontaneously widen interregional divergences. It is important to stress that, according to Myrdal, increasing interregional divergences do also occur within the capitalistic areas, i.e. not only involving the so-called underdeveloped economies: for instance, they pertain to the economic

\textsuperscript{2} In what follows, the CCC will be referred to the effect of labour migration on interregional divergences.

\textsuperscript{3} Consider also that, as Ferraton (2008) points out, Myrdal’s field of research significantly modified over his life, with an early stage characterized by his interest in pure theoretical issues (money and prices, in particular) and a second stage characterized by his increasing attention to applied economics. Ferraton imputes these changes to Myrdal’s biography and, particularly, on the role that his wife (Alva, Nobel Prize for Peace, 1982) played in influencing his ideas.

\textsuperscript{4} The difference between radical and new institutionalism is described by Malcolm Rutherford (1994) in the following terms: the former analyzes institutions to uncover their dysfunctional aspects, which arise out of inertia and vested interests. The new institutionalists, in contrast, emphasize the evolution of institutions as efficient responses to guide the pursuit of self-interest.
relations between Northern and Southern Italy (Myrdal, 1957, ch. III). Moreover, the author stresses that the initial agglomeration in certain localities can occur by “historical accident”, although “commercial centers are … usually located in places where there are reasonably good natural conditions for the construction of a port for heavy industry” (Myrdal, 1957, pp.26-27).

The mechanism described is amplified by two main factors.

a) The first is what Myrdal defines a “backwash effect”, meaning the opposite effect of the neoclassical prediction as stated by Heckscher and Ohlin (cf. Anthon Eff, 1998). According to Myrdal, firms operating in a rich area, being more productive than those operating in a poor area, are in the position to export their goods and services at a lower price than the prices of goods and services they import. As a result, interregional trade increases GDP in the rich areas, while decreasing GDP in the poor areas.

b) The second effect pertains to migration of the workforce living in area B, where migration mainly depends on wage differentials between the two areas. Contrary to the neoclassical view, migration – according to Myrdal – contributes to the impoverishment the poor areas, insofar as those who leave are usually the more productive workers. This is a case where inputs interregional mobility entails a transfer of productivity from poor areas to rich areas.

This is what Myrdal calls “cumulative and circular causation” (CCC), implying that – in the absence of external intervention – instability is a key feature of the functioning of market economies.

Myrdal also considers the operation of “spread effects” and “counteracting changes” in rich areas. The spread effect occurs when the increased demand in rich areas stimulates demand for goods produced in poor areas, thus counterbalancing the vicious circle inherent to interregional trade. Moreover, in rich areas some “counteracting effects” may be in operation, including wage rises (which reduce profits and investments) and the obsolescence of fixed capital. He also considers that in economies which experience persistently high rates of growth, the ‘motive for accumulation’, on the part of entrepreneurs, may tend to decline (Myrdal, 1957, p.36).

The CCC described above is exacerbated by the dynamics of the labour market, according to the following effects.

1. The supply side: Migration and the ‘productivity export effect’. According to Myrdal (1957), regional divergences are produced

   “via migration, capital movements and trade as well as all the effects via the whole gamut of other social relations … and the term refers to the total cumulated effects resulting from the process of circular causation between all the factors, ‘non-economic’ as well as ‘economic’” (pp.30-1).

Migration – the author adds – mainly regards workers who can migrate and expect to be hired in the rich areas (and, hence, the more productive workers), and is mainly triggered by the existence of wage differentials between rich and poor areas. Those who remain in the poor areas are children, the elderly, and those with little ambition (cf. Anthon Eff, 1998). As a result, migration modifies the age structure of the peripheral areas to their disadvantage (Myrdal, 1957).

In view of these arguments, Myrdal’s thesis can be summarized by the following sequence, which holds on the supply side of the economy.

- the initial existence of wage differentials stimulates migration from the poor areas;
- migration involves highly skilled workers, so productivity in the rich area increases;

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5 However, the opposite effects tend to prevail, due to the fact that the price of goods exported by poor regions is, as a norm, lower than that of imported goods.

6 Myrdal (1944) maintains that other aspects have to be taken into consideration, involving psychological factors and the “complex of intentional policies”. For the sake of simplicity, these aspects will not be explicitly considered here.

7 A further consideration to be taken into account is that – according to Myrdal (1957) – income inequality is higher in poor areas than in rich areas. This phenomenon is linked to the extent of the welfare state and will be treated below.
- this produces an increase of the growth rate in that area which increases interregional divergences;
- the increase of the growth rate generates an increase in wages and consumption in that area.

Two considerations are in order. First, the link between economic growth and wage rises is not clarified by Myrdal. The link can be found in the consideration that – in the initial condition - due to the high wages in the rich area, savings are higher than in poor areas. In a CCC regime, this increases workers’ bargaining power since workers accumulate savings, thus increasing their reservation wage and, hence, their bargaining power. Second, according to Myrdal (1957, Ch. VII), migration is triggered not only by wage differentials, but also by the fact that most workers located in poor areas are unemployed and/or in a condition of “hidden unemployment”. This leads us to conclude that:

i) in a deregulated market economy, wage differentials tend spontaneously to increase over time.
ii) a deregulated market economy spontaneously generates a transfer of productivity from poor areas to rich areas, due to emigration.

Interregional divergences therefore rise in proportion to the flux of emigration of the more productive workers, which, in turn, crucially depends on the initial wage differentials. Wage dynamics, in turn, are significantly affected by the initial condition, insofar as the higher the initial wage differential is, the more it tends to be amplified over time. At this stage, it is assumed that economic growth is entirely driven by the increase in productivity, and hence it develops ‘on the supply side’. In what follows, it will be shown that – following Myrdal – this process also involves the path of consumption. More generally, the supply side and the demand side of the economy interact, in an iterative path of cumulative causation, which implies an endogenously self-sustaining process of increasing poverty in the poor areas.

It is now possible to establish that the link between labour and output does not give rise to a technical production function (i.e. a production function only based on the techniques firms use), but is significantly affected by social dynamics and, particularly, by emigration. In formal terms, the level of production in the rich area in a CCC regime is given by:

\[ Y_A = \pi_A N_A \left( \frac{w_A}{w_B} \right) \]  

Equation 1 establishes that output in the rich area \((Y_A)\) depends on labour productivity \((\pi)\) and on the number of workers employed in that area \((N_A)\). \(N_A\), in turn, includes native workers and immigrants employed in that area, whose number is an increasing function of wage differentials \((w_A/w_B)\)^8. The increase of the highly-skilled workers employed in the rich area generates an increase in output, due both to a direct effect of \(N\) on \(Y\), and an indirect effect which can be in operation in the event poorly-skilled workers in the rich area are substituted by highly-skilled workers coming from the poor area^9. This leads us to conclude that the higher the wage differentials, the higher the output in the rich area (and the lower it is in the poor areas). Accordingly, in this theoretical context, it is impossible to formulate an aggregate production function which solely reflects the economy’s technological setting. This is because output in rich areas crucially depends on output in poor areas, and vice versa, and particularly on the dynamics of the labour market.

More generally, it is emphasized here that, within an Institutional theoretical framework, and by contrast to the standard Neoclassical picture, production is above all a social process. This

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8 Note that equation 1 presupposes a dynamic process involving increasing wage differentials and emigration of highly-skilled workers. This occurs because emigration increases output in rich areas, which generates an increase of labour demand for highly-skilled workers, which, in turn, increases wages differentials thus stimulating further emigration (see below). This sequence presupposes assumptions on the path of labour demand of highly-skilled workers in the rich area, as well as on human capital accumulation in the poor area, which are not clearly posed in Myrdal’s works. I thank Carlo Panico for raising this point.

9 I thank Giorgio Colacchio for raising this point.
particularly applies to the standard Neoclassical view that human capital directly enters the production function, thus giving rise to $Y=f(K,H)$, where $H$ is one unit of labour time multiplied by the level of human capital. This formulation is subject to two shortcomings.

a. In an economy where, at the extreme, $H=0$, for whatever value of units of labour employed, output is nil, which is of course counterfactual. More generally, the Neoclassical human capital theory does not consider that production is a social process, involving class relations, the dimension of power, the role of schooling as a ‘discipline device’ and the possibility that human capital accumulation can reduce output (cf. Bowles and Gintis, 1975)\textsuperscript{10}.

b. It is unclear how to measure $H$, both because it is a *multidimensional* variable (so that one cannot settle that it simply *quantitatively* varies, but it also - and mainly - varies for its *quality*) and because, as Thurow (1970, p.1) clarified: “[Human capital] is measured in terms of the value (price multiplied by quantity) of goods and services produced. Since consumption is the ultimate goal of our economic system, the value of a man’s human capital is the same as the value of the consumption goods and services which he directly or indirectly produces. When the value of goods and services rises, the value of human capital rises. When the value of goods and services falls, the value of human capital falls.” (Thurow, 1970, p.1). Therefore, $H$ should be measured on the basis of $pY$, where $p$ is the unitary price. But, in order to know $pY$, one should measure $H$, thus generating a problem of circularity.

It is worth noting that, according to Myrdal, institutional factors play a crucial role in labour market dynamics. In fact, the sequence above is based on the assumption that no discriminating behaviours on the part of the employers exists. If, by contrast, this is the case, the ‘self-fulfilling prophecy’ described in the work *An American Dilemma: The Negro Problem and Modern Democracy of 1944*, would prevail:

> “White prejudice and discrimination keep the Negro low in standards of living, health, education, manners and morals. This, in its turn, gives support to white prejudice. White prejudice and Negro standards thus mutually ‘cause’ each other”.

In such a situation, any migration does not generate the ‘productivity export effect’ described above, insofar as immigrants *i)* will not will transfer human capital into rich areas and *ii)* they not be hired\textsuperscript{11}. Myrdal adds that migrations and discrimination cannot be contrasted by means of a direct State intervention in the labour market. This occurs because:

> “There is, in addition, the possibility that the policy of setting minimum standards might cause some jobs to disappear altogether or to become greatly decreased. What has earlier hindered mechanization has often been cheap labor. If labor gets more expensive, it is more likely to be economized and substituted for by machines. Also, inefficient industries, which have hitherto existed solely by exploitation of labor, may be put out of business when the government sets minimum standards. These effects may not show up all at once (Myrdal, 1944)”

It is worth noting that this conclusion is in line with Myrdal’s theory of the labour market as depicted in his *Monetary equilibrium* (1939). As stressed by Seccareccia (in Dostaler et al, 1992, pp.158 ff.), in this work the author follows the standard neoclassical view that unemployment derives from wage rigidities. At the same time, Myrdal adds that a low wage policy generates aggregate negative effects, insofar as it negatively affects firms’ expectations and hence investments. Moreover, in *Rich and poor lands* (1957, pp.23 ff.) he clearly imputes unemployment to a lack of aggregate demand.

\textsuperscript{10} This latter case derives from the fact that schooling tends to ‘segment’ labour supply, thus reducing unions’ bargaining power and the possibility of stimulating economic growth via wage increases.

\textsuperscript{11} Jackson (1990) provides a detailed treatment of this topic.
2. The demand side: Aggregate demand and increasing interregional divergences. As seen above, Myrdal also maintains that “capital movements and trade” contribute to generating interregional divergences. On the supply side, this occurs because – as shown above – wage differentials between rich and poor areas stimulate emigration, thus generating a transfer of productivity to the benefit of the poor area. This, in turn, increases the growth rate in that area, hence further amplifying wage differentials. “Capital movements” come into operation when, due to the higher wages, the demand for consumption goods increases in the rich areas, giving rise to a sequence of effects described in the following sequence, which occurs on the demand side of the economy.

- The increase in wage differentials between the two areas generates increased consumption in the rich area compared to consumption in the poor area12.
- This, in turn, pushes firms to move into the rich area, which leads to an increase in the number of firms, in investment and in the growth rate in that area, under an ‘accelerator’ effect13.
- This effect is amplified by the fact that interregional exchanges are exchanges between goods with different prices: since the prices of commodities (produced in poor areas) are normally lower than the prices of manufactured goods (produced in rich areas), in a free-trade market regime exchanges between rich and poor areas are systematically to the advantage of the latter. As a result, due to the relative increase of the price level in poor areas, real wages tend to decline (Myrdal, 1957).

Myrdal (1957, ch. III) adds that investments in rich areas are made possible by the transfer of savings from poor to rich areas, via the operation of the banking system, where the profitability of investment is higher. Although in his theory of interregional divergences the author does not explicitly address the factors determining the price level and their dynamics, it is possible to expand his theory of CCC starting from his Doctoral dissertation (The Problem of Price Formation and Economic Change, 1927). By criticising Wickell’s monetary equilibrium approach14, Myrdal maintains that price dynamics is mainly affected by monetary policy and by entrepreneurs’ optimism, in a context where firms’ pricing is, in turn, affected by expectations. As regards the first aspect, he points out that a decrease (increase) in interest rates generates the expectation of an increase (decrease) in aggregate demand and, hence, in the inflation rate. The individual firm reacts by increasing prices in ‘anticipation’ of this effect (cf. Seccareccia, in Dostaler et al., 1992). As regards the second aspect, the spread of optimistic attitudes among entrepreneurs pushes them to expand their demand for credit and hence to expand investments. By inserting these two results into the dynamics of interregional divergences, a twofold result is attained. First, insofar as aggregate demand is higher in rich areas, this produces a more ‘optimistic’ environment in that area, thus generating an expansion of investments there and of the demand for banking credit. Second, the increase in the demand for credit is likely to produce a rise in the interest rate and, due to the argument above, a decline in the inflation rate. This, in turn, produces an increase of real wages and a further interregional divergence as regards wage dynamics and consumption.

3. The dynamics of the labour market and ‘social capital’. Myrdal (1963, pp.30-31, italics added) points out that interregional divergences are generated “via migration, capital movements and trade as well as all the effects via the whole gamut of other social relations [...] and the term refers to the total cumulated effects resulting from the process of circular causation between all the factors, non-

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12 For the sake of simplicity, we do not deal here with the case where the propensity to consume differs in different areas.
13 Panico and Rizza (2009) interpret this mechanism as being similar to that deriving from the multiplier effect in Keynesian theory and, more generally, find significant elements of similarity between Keynes and Myrdal. Furthermore, it must be stressed that, as recognized by Paul Krugman (1991, p.496), Myrdal’s arguments are also relevant to studies in the so called new economic geography. The basic idea in Krugman’s paper, i.e. that “Manufacturer production will tend to concentrate where there is a large market, but the market will be large where manufacturer production is concentrated”, is, as a matter of fact, very similar to that expounded by Myrdal (and explicitly referred by Krugman to Myrdal).
14 Two main thesis are supported in this work. First, money is pure credit. Second, variations of money supply do not affect the general price level, but the relative prices, on the grounds that, in actual fact, some prices are sticky and other are flexible.
economic' as well as 'economic". He adds that “Generally, as levels of living and education rise […] we may approach a situation where many important public policies can be put into effect without much direct state intervention in the ordinary sense”. This leads to a situation that “it is undoubtedly practical, not only to lay down certain general rules by legislation, but also to sanction their enforcement not only by courts but by administration” (Myrdal, 1958, pp.65-66). In these passages, the author suggests that i) human capital accumulation is associated with ‘social capital’ accumulation\(^\text{15}\) and, as a result, that ii) the rise of social capital reduces the transaction costs. In view of the arguments above, one can conclude that emigrations (also) transfer social capital from poor areas to rich areas, thus making the functioning of the richer economies more efficient. This effect is also linked to the fact that industrialization may inculcate “a new spirit of rationalism, enterprise, discipline, punctuality, mobility, and efficiency” (Myrdal 1963, pp.1186 ff.), so that migration also modifies habits of thought, inculcating efficiency and, by means of this, contributing to further increasing productivity in rich areas.

In view of these three mechanisms, the author concludes that:

“The play of the forces in the market tends to increase, rather than decrease, the inequalities between regions” (Myrdal, 1957, p. 26).

Moreover, insofar as capital accumulation crucially depends on the existence of inequalities (as well on regional divergences), the ‘accumulation function’ on the part of the Government consists in promoting free trade policies, to the benefit of firms and particularly of firms located (or that can locate) in rich areas. As Myrdal (1963, p.146) points out:

“When ... they [the English classical economists] recommended free trade as a general policy, it was not on the ground that free trade would be to the good of the world but because it would be in the interest of their own country”.

Figure 1 shows the whole dynamics described here, with sole reference to the mechanism of growth in rich areas.

\(^{15}\) The links existing between social and human capital are not explicitly addressed by Myrdal. On this topic, see Coleman (1988).
Panel a) describes the relation between labour ($N$) and output ($Y$). Point A is the initial condition, where a given wage differential between rich and poor areas exists. Starting from this differential, a flow of migration in rich area occurs, and its entity depends on the number of skilled workers located in the poor areas, on their propensity to emigrate, on the weight of the transfer of social capital in affecting output. The angle $\alpha$ captures these variables. Migration generates an increase in output (from A to B) and, at the same time, an increase in the demand for consumption goods (panel b), from D to D’ and, hence, from E to E’ in panel c). The increased demand for consumption goods, in turn, stimulates an increase in production (from B to F, in panel a), and its magnitude depends on the ‘motive for accumulation’ and on capital migration, both captured by the angle $\beta$, so that the higher the ‘motive for accumulation’ and the more intense the capital mobility, the more rigid the C-Y curve tends to become. This, in turn, produces a further increase in wages and further migrations (arrow line), with cumulative effects on consumption and production.

*Figure 1: economic growth in a CCC regime*
3 – The legitimisation function in a neo-liberal regime

External intervention aimed at reducing income inequalities may depend on what can be labelled a *legitimation function* on the part of the Government. Myrdal (1958, pp.57 ff.) calls it the “created harmony”, by stressing that:

“The politicians have […] an interest in preserving favourable conditions for the normal day-to-day cooperation [and] tend to do their best to keep people happy and tone down their dissatisfaction”.

He adds that “This gradually accomplished harmony of interests is not the old liberalistic one, which was supposed to emerge out of the unhampered working of the free forces in the market […]. The harmony which is being realized is therefore a ‘created harmony’, created by intervention and planned coordination of interventions. It is the opposite of the natural harmony of the old liberal philosopher and theoreticians” (id.).

The author maintains that the legitimisation function of the welfare state depends on the fact that “As […] the political power of the workers increased in the process of democratization […] and the social conscience became more alert to the sufferings of the unemployed and their families – two changes which, of course, are closely related – measures of financial aid to the unemployed were instituted in one country after another” (Myrdal, 1958, p.49). At the same time, the expansion of the welfare state produces two results: *i)* it raises “the productivity of the mass of people” (ibid., p.47) and *ii)* it generates an increase of public debt (ibid. pp.50 ff.). More generally, the existence of the Welfare State enhances (and, at the same time, presupposes) the spread of “feeling of solidarity”, which – by its very nature – contrasts the anarchy of a deregulated market economy, and reduces uncertainty. Myrdal maintains that uncertainty is linked to the subjective “lack of trust” with reference to others’ behaviour:

“… uncertainty can be subjectively amplified to any degree of suspicion and lack of trust, when the world outlook becomes less controlled by reason” (Myrdal, 1958, p.157).

The expansion of the welfare state finds two limits, referring respectively to developed and underdeveloped areas. In the first case, immigration implies that rich areas import people into the sphere of welfare state protection for whom the sphere was *not* originally created. However, in a long-run perspective (i.e. in a condition where immigrants are completely integrated) this boundary become weaker and two distinct mechanisms prevail. First, the economic cost of the welfare state is paid by means of increasing tax revenues on the part of the State, made possible by the increase in production and wages. Second, the increase of pro-capita income makes people more willing to devote resources to ‘generosity’ purposes, according to the principle that the ‘degree of morality’ (altruism, in this case) increases as income increases (Myrdal, 1957, ch.IV). These two mechanisms cannot be in operation in poor areas, where tax revenues tend to decline, and – due to the decline of wages – also the (existing) sentiments of ‘generosity’ do give rise to the acceptance of policies of income redistribution, by means of the expansion of the welfare state. Insofar as the expansion of the welfare state is assumed to reduce inequalities, its reduction in poor areas contributes to generating a condition where, as Myrdal (1957) observes, *income inequalities are higher in poor countries*. Myrdal (1957, ch.V) adds that social mobility tends to be lower in poor areas, mainly due to low human capital accumulation. This also affects the prevailing criteria of selection of the ruling

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16 This effect is mainly generated by increasing education and policies devoted to improving public health. Accordingly, the establishment of the welfare state, as Myrdal points out, is not (only) supported by arguments of social justice (Myrdal, 1958, p.47).
classes: low per capita income – and hence low human capital and low social capital - are associated with low quality of political institutions. When Myrdal wrote on these issues, the prevailing cultural climate was in favour of public intervention, and Myrdal’s theory of the “created harmony” provided further support for Keynesian economic policies. The author remarked that public opinion and most politicians agree that “Economically, as well as socially, the Welfare State [is] a conspicuous success” (Myrdal, 1958, p.65).

The reduction of the State intervention in the following decades made the problem of combining accumulation and legitimisation even more relevant, like the problem of increasing interregional divergences (cf. Sai-Wing Ho, 2008). In this scenario, Myrdal’s argument that the Welfare State can play a major role in legitimating the existing order needs to be revised. On the theoretical plane, and within the Institutional theoretical framework, this question has been addressed, in particular, by Crotty, Epstein and Kelly (1995). They emphasise that, particularly in a globalization regime, capitalists, mainly due to their ability to threaten disinvestment, have more political power than workers so as to steer Government action to their advantage. Bowles and Gintis (1986) propose to interpret this phenomenon in a theoretical schema where i) firms are mobile in the international arena, ii) every single government is interested in electoral consensus, iii) consensus for the existing Government increases as domestic investments increase. As a result, the credible threat of investing abroad or of postponing investments – the so-called ‘capital strike’ – acts as a ‘discipline device’ to force the Government to implement pro-firm policies. At the same time, the Government has to maintain social order, thus implementing pro-worker policies and facing a trade-off between accumulation and legitimisation (see O’Connor, 2002 [1976]). This trade-off becomes even more significant as the industrial concentration ratio rises, since, as a norm, the larger firms are, the more they can move in the international arena, and the more political power they will hold.

A question then arises regarding the devices political institutions in poor areas use for legitimisation purposes. Myrdal maintains that the expansion of the welfare state in poor countries is (at least partly) prevented by the fact that the upper classes finds this policy useless or even counterproductive for their own interests, insofar as the Welfare State tends to reduce income inequality, and may imply a rise in the taxation of high incomes. It can be added that policies designed to increase income equality, mainly by means of the welfare state, meet the opposition of the ‘vested interests’, due to the fact that they increase employment, hence wages, thus reducing profits. By contrast, the reduction – or ‘privatisation’ – of the welfare state generates undesirable social and economic outcomes, insofar as it is associated to social conflict and social exclusion. Conflict can manifest itself both inside and outside the firm, and – in this latter case – it occurs in the social arena and mainly in the form of increasing ‘deviant behaviours’. The drop of pro-capite incomes in poor areas, following Myrdal, generates a decline of social capital (and the prevailing codes of morality) and, more generally, stimulates illegal behaviours. In other words, the progressive reduction of the welfare state generates a condition where the prevention of social conflict is substituted by its repression, or by its tolerance, and, for the reasons discussed above, this phenomenon particularly applies to peripheral areas. According to Myrdal (1957, pp.20-21, italics added), this constitutes “social waste”, insofar as policies devoted to rising the standard of living of workers in poor areas involve “social gains for society”.  

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17 “Independent of whether it is democratic, oligarchic or dictorial, the state, which is supposed to do all this planning and put it into effect, is often in underdeveloped countries a weak state, served by a comparatively ineffective and sometimes corrupt administration” (Myrdal, 1957, p.86).

18 Which, according to Palma (2009, p.847), gives rise to a ‘low intensity’ democracy.

19 They are broadly defined here as behaviours which do not respect the prevailing formal, social and moral norms (such as the expansion of ‘black labour’, tax evasion, crimes).

20 In more general terms, Palma (2009, p.845, italics added) remarks that “what capital urgently needed was the reintroduction of risk and the spiralling of uncertainty right into the soul of what were by then rather too self-assured ‘welfarised’ institutions and population. So what was needed was a return of an environment in which the state has to live permanently under the logic of a ‘state of emergency’.”
For the sake of legitimising the existing system, two solutions are available. First, illegal behaviours are not sanctioned, insofar as they allow individuals in poor areas to obtain (illegal) incomes. Second, public institutions may sanction them, thus expanding ‘unproductive employment’. In both cases, it is important to stress that the non-prevention of conflict is costly, both on economic and social grounds. In this context, ‘unproductive workers’ include monitors, prisoners, guards, and military personnel, and as Bowles and Jayadev, 2005) stress: “These workers might be called (in the classical sense) unproductive, a term that does not suggest that they are unnecessary, but only that their efforts are directed towards the second kind of activity”21.

On the ideological plane, Myrdal observes, economic theories suggesting policies for inequality – which are dominant - help to give them ‘scientific’ support, based on the view that productivity and savings on the part of the upper classes stimulate economic growth:

“As long as economic thinking had a metaphysical foundation and a teleological intent … there ruled an arbitrary but effective principle of historical selection, which I have referred to as founded upon the ‘realism of conservatism’. The conservatively inclined writers, steered in their analysis by a conception of an ideal society more likely than one we see, could actually often deliver a superior explanation of social reality in causal terms. This theoretical superiority of conservative thinking is, of course, entirely fortuitous. It does not imply that conservative political valuations are in any sense “true” or even “truer” than the more radical ones” (Myrdal, 1957, p.134).

In view of these arguments, capitalist reproduction generates a key contradiction: accumulation proves to be inconsistent with social cohesion, insofar as it requires increasing income inequalities, and increasing income inequality is associated with social conflict. The contradiction manifests itself in the double aim, on the part of political institutions, to implement pro-firm policies (via neo-liberal policies) and, at the same time, to legitimise the existing order via the costly repression of social conflict22.

4 – Concluding remarks

This paper provides a reconstruction of Myrdal’s thought on the mechanisms which, in deregulated market economies, spontaneously generate increasing inequality, particularly between rich and poor areas. The focus is on the role of (highly skilled worker) emigration, driven by wage differentials, in producing a rise of productivity in rich areas, giving rise to a cumulative causation effect to the benefit of rich areas. This occurs because emigration increases productivity and thus the rate of growth in rich areas, entailing an increase in demand in that area associated with increased investments. Accordingly, political institutions play a crucial role in promoting capital accumulation by means of free trade policies. However, political institutions are also engaged in enhancing a ‘legitimisation function’, i.e. in legitimating the existing order both in rich and in poor areas. A trade-off emerges between accumulation and legitimisation, which can be considered as a key feature of capitalist reproduction. In this respect, Myrdal’s theories can be considered a significant contribution for a non-equilibrium economics, where social and political aspects play a pivotal role in affecting macroeconomic dynamics.

21 Myrdal (1958, pp.131 ff.) maintains that “emotional nationalism”, as a spontaneous and instinctive reaction to increasing interregional divergences or as an intentional device on the part of the Government, may act as a powerful tool in order to create social cohesion in poor areas.

22 Particularly in poor areas where income distribution is more unequal, the upper classes are engaged in promoting ignorance and, at the same time, in trying to giving scientific support to the (questionable) view that increasing income equality reduces savings and productivity.
References


