AN EXPLANATION OF INTER-REGIONAL AND INTERNATIONAL INEQUALITIES

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I. INTRODUCTION

Economic opinion is, by and large, divided on the contribution of international trade and factor movements to economic development. Classical economists maintained that international trade and international factor movements were conducive to the economic development of all nations. On the other hand, Marxists consider that these movements are the means through which rich countries exploit poor ones. A more recent approach, which accepts the presence of exploitation, maintains that this is due not so much to deliberate action on the part of advance countries, but rather to the existence of 'disequalising' forces [1].

In the present essay attempt is made to examine the causes of international and inter-regional inequalities. For that purpose we shall briefly discuss : 1) the relevance of the classical theory of international trade and international factor movements to the problem of economic development, and 2), Myrdal's 'disequalising' process approach. Given that Myrdal's approach is based on his theory of 'circular and cumulative causation' it will be necessary to evaluate this theory also.

II. THE CLASSICAL THEORY OF INTERNATIONAL TRADE AND FACTOR MOVEMENTS AND THE PROBLEM OF ECONOMIC DEVELOPMENT

Classical and neo-classical economists, relying on the theory of comparative advantage, stress the gains from international trade which

1. Such an approach is developed more or less by Myint, Singer, Lewis, Myrdal and others. However, Myrdal's theory seems to be the most comprehensive and for that reason we shall confine our remarks to this approach. See H. Myint, 'The Gains from International Trade and the Backward Countries', in the Review of Economic Studies, XVII, 1954-1955; G. Myrdal, 'Economic Theory and Underdeveloped Regions', 1957; W. A. Lewis, 'The Theory of Economic Growth', 1955, p. 176-182; H. W. Singer, 'The Distribution of Gains between Investing and Borrowing Countries', in the American Economic Review, May 1950.

accrue to both underdeveloped and advanced countries through a better allocation of world productive resources. International trade widens markets, promotes the division of labour, increases external economies and capital formation, and intensifies competition. All this, according to the classical and neo-classical economists, is conducive to economic development [2].

The classical approach to international specialisation and exchange is a static one; it is assumed that full employment and perfect competition prevail; there are only two commodities and two factors of production (mobile within countries but not internationally), and finally that production functions are identical. Under these assumptions it is proved that comparative advantage will arise owing to different factor endowments in the two countries and, as a result each country must specialise in the production of the commodity which absorbs a higher proportion of the factor which it possesses in abundance.

Many economists hold the view that the static nature of the comparative advantage doctrine does not deny its application to the problem of economic development. The opening of trade will contribute to the maximisation of real income along the lines of comparative advantage and, if factor endowments change, either through increases in population, or through new discoveries, a new basis for comparative advantage is established, and the same argument applies.

However, other economists, notably German writers and American protectionists, took exception to the free trade rule. These economists insisted that international specialisation under free trade does not always give optimum return, because under existing prices an infant industry cannot expand and the emergence of increasing returns contributes to lower prices and to a strengthening of the competitive position of this industry.

More recently, a host of economists argue against the relevance of the theory of comparative advantage to economic development. 'Dynamic counter-weights' Professor Kindleberger says, 'to static comparative advantage have been found in short-run instability, in long-run behaviour in the terms of trade, in disparity between private and social

2. The argument of this section owes a great deal to the discussion in Kindleberger, 'Economic Development', 1958, Chapter 4, which is the most satisfactory examination of the problem. Other interesting discussions are to be found in : Nurkse, 'Problem of Capital Formation in Underdeveloped Countries', 1958, p. 21-22; Viner, 'International Trade and Economic Development', 1953; Meier and Baldwin, 'Economic Development', 1959, pp. 135-137, 324-326 etc.

costs, and, more fundamental, in the prevalence of the two-country, two-factor, two-commodity world to the world of factor movements, capital accumulation, changing technology, and intermediate goods' [3].

The existence of wide short-run fluctuations in export prices disfavour specialisation in poor countries, for example, in a food item or agricultural raw material, because these fluctuations slow down the rate of economic development. This may happen because neither consumption or investment can very sufficiently in the short-run to overcome wide changes in export prices, and therefore a developing country cannot exercise control over its national income and money supply, and hence over its rate of development [4].

Specialisation is also unfavourable from a long-run point of view, for it condemns poor countries to specialise on raw materials where there are 'ever-declining' terms of trade in contrast with developed countries who produce a wide range of manufactured goods. Initially it was thought that in long-run the terns if trade would turn in favour of agricultural countries. This argument relied on the assumption of diminishing costs in the production of primary goods and on diminishing costs in the production of manufactured goods; such argument however, is not supported by evidence. Another view contends that the terms of trade turned the other way. This view relies on Engel's law which suggests that progressing shifts of productive resources out of primary production into secondary and tertiary industry must take place as world per capita income increases; if this does not happen the prices of primary goods will decline relatively to the prices of manufactured goods.

But although 'there is not necessary trend in the terms of trade between manufactures and raw materials, the terms of trede seem to favour developed countries and run against underdeveloped countries' [5]. A justification for this development is found in the relative immobility of supply in underdeveloped countries. If, for example, an underdeveloped country specialises in the production of a profitable commodity and new competitors emerge, then its terms of trade may deteriorate or fail to improve, while at the same time a re-allocation of resources

3. Kindleberger, op. cit. p. 239.

4. A study by the United Nations secretariat of 50 commondities over the period 1900-1950 shows that year-to-year fluctuations in the prices of these commodities was 14 per cent. 'Instability in Export Markets of Underdeveloped Countries', U.N. New York 1952.

5. Kindleberger, op. cit. p. 241.

away from this production may not take place readily. Generally we may say that in underdeveloped countries supply is elastic for price increases but not for price declines.

Further opposition to free trade is based on Manoilescu's argument [6]. In this instance it is maintained that much of the labour in the agricultural sector of the economy is marginally unproductive, owning to the existence of 'disguised' unemployment, even if it is paid a return. In other words private cost, on which comparative advantage calls for the export of agricultural goods and for imports of manufactures, is unrepresentative of social cost. At the same time anything which is produced marginally in industry is a gain for the society as a whole. On these grounds Manoilescu recomends the imposition of a tarif to stimulate the production of manufactures and the shift of labour from agriculture to industry. It is apparent that such a view is extremely opposed to the comparative advantage argument, where it is accepted that a poor country should specialise on the production of agricultural products and import manufactured goods from countries where capital-intensive industries prevail.

But in addition, as R. Robinson points out, factor endowments are not fixed but change with technology. Relying more on the production on import substitutes than on the expansion of export activities, a poor economy may promote its external economies and therefore new factor endowments will be achieved [7]. Such was the experience of Japan where the substitution of imports by domestic manufactures created development gains in external economies and specially in training, and therefore to a further expansion of the economy (for example, the development of machinery, electric equipment production ect.).

Factor endowments can also change with international factor movements. However, of more importance is the fact that where trade opens up, opportunities for capital formation or labour training, and imports in intermediate goods are promoted. In this case, we may maintain that trade explains factor endowments rather than endowments trade. In addition, since technology is diffused slowly, trade may at a given time explain differences in technology rather than differences in factor proportions [8].

6. Manoilescu, 'Theory of Protection', 1931.

7. R. Robinson, 'Factor Endowments and Comparative Advantage', Quarterly Journal of Economics, May 1956.

8. The fact that, for example, airplane manufacture is labour intensive does not mean that an overpopulated poor country is able to export airplanes.

Moreover, where a production function permits considerable substitution the theory of comparative advantage has to communicate. It is conceivable for example, that with cheap capital the United States could export rubber to Indonesia, or with rubber-producing land Indonesia could export rubber to the United States.

When technology is subject to continuous change as is invariable the rule, specialisation involves risks which undermine the basis for such a specialisation. The substitution for example of synthetic goods for textiles based on cotton or wool is such an instance. Finally, tastes, which classical economists take constant, continuously change. Improved transport and communication through the emergence of 'demonstration effects' may cancel any benefits from trade by shifting demand from local, traditional products in relatively abundant supply, towards imports of scarce commodities incorporating up-to-date technologies or fashions.

The theory of comparative advantage is valid, given its assumptions, but we may conclude that is almost of no value when applied to the problem of economic development. Specialisation on the export of agricultural products may have contributed to a relative increase in productivity and real incomes in agricultural countries when trade first opened up for them, but a rapid growth cannot be achieved through a free trade policy. Such a growth could be the outcome rather of diversified and protected industrial activities.

Finally, classical theory in assuming the international immobility of factors of production fails to elaborate a worthy theory of international trade movement, despite the fact that such movements were extremely common in the nineteenth century [9].

More recently Bertil Ohlin systematically incorporated factor movements in international economics [10]. By the time his theory appeared however, the classical assumption of international factor immobility had become to a large extent established, especially as far as underdeveloped countries are concerned, due to the international political developments and economic crises of the thirties. For that reason a discussion concerning the international movement of capital and labour is of limited practical value.

9. This is an extraordinary situation in a century during which capital as well as labour moved from Europe to other continents on a large scale'. Nurkse, 'Capital Formation in Underdeveloped Countries', 1953. p. 121.

10. See 'International and Inter-regional Trade', 1933.

Relying on the aforementioned inadequacy of the classical, and more generally of 'traditional' economic theory in explaining economic development and underdevelopment, Myrdal attempts to establish a substitute for it.

III. MYRDAL'S EXPOSITION OF INTERNATIONAL AND INTER-REGIONAL INEQUALITIES

A. The General Approach.

Myrdal maintains that ' ... a study however intensive of the theory of international trade cannot provide much of an explanation in causal terms of how the facts of international economic inequalities have come into existence, and why there is a tendency for inequalities to grow. The theory of international trade and, indeed, economic theory generally were never worked out to serve the purpose of explaining the results of economic underdevelopment and development' [11]. Myrdal attacts economic theory for relying on two false assumptions : first, the assumption of stable equilibrium in its uncomplicated form implies that every disturbance provokes a reaction within the social system which tends to restore a new equilibrium. But in the normal case, Myrdal argues, a change does not call forth reactions but supporting changes which tend to move the social system in the direction of the initial change and much further. Second, the distinction between 'economic' and 'non-economic' factors contributes to another unrealistic assumption. In the real world 'non-economic' factors cannot be taken as given and static. These very factors react in a disequilibrating way. Instead Myrdal introduces the distinction between 'relevant' and 'non-relevant' factors or 'more relevant' and 'less relevant' factors.

Myrdal's approach is, more or less a reversal and extension of the 'vicious-circle' argument. As Professor Nurkse states, the vicious circle 'implies a circular constellation of forces tending to act and react upon one another in such a way as to keep a poor country in a state of poverty. Particular instances of such circular constellations are not difficult to imagine. For example, a poor man may not have enough to eat; being underfed, his health may be weak, his working capacity is low, which means that he is poor, which in turn means that he will not have to eat; and so on. A situation of this sort, relating to a country

11. Op. cit. p. 9.

as a whole, can be summed up in the trite proposition : 'a country is poor because it is poor' [12].

Myrdal, reversing the 'vicious circle' process considers that (to use the same example) a circular relationship between less poverty, better nourishment, and consequently better physical working capacity could sustain an upward process instead of a downward one. Such a process concerning the development of a region may be described as follows : assuming that an industry is established in a poor region then this will give a spur to its general development. New opportunities for employment and higher incomes are provided for those previously unemployed or employed in a less remunerative way. Local business will increase as demand for goods and services increases, and labour and capital may be attracted from outside this locality to exploit new opportunities. Profits and savings increase and simultaneously investment goes up still more. Finally, this expansionary process gradually creates external economies favourable to the continuation of this upward cumulative movement. A closing down of such an industry would of course, call forth a downward cumulative or 'vicious circle' process.

A social process may of course be stopped. This may come about through exogenous changes which have the necessary strength to bring the social system to rest. But this position is not the outcome of market forces within the system. Moreover, any new change may drive the system away from this position and in the direction of this change.

However, the main scientific task of formalising a theory of circular and cumulative causation is to analyse the causal interrelationships within the system itself, as it moves under the influence of exogenous changes, and its own momentum.

An ideal solution to this task requires the formulation of a set ofequations describing these relationships. But as Myrdal states, 'that this complete, quantitative and truly scientific formulation is far beyond the horizon does not need to be pointed out; but in principle it could be made, and I submit that the working of such a complete and quantitative solution should be the aim of our research endeavours even when they have to stop far away from ideal' [13].

Accepting the 'hypothesis' of circular and cumulative causation, some important conclusions emerge : it is meaningless to distinguish between 'economic' and 'non-economic' factors contributing to a change,

12. Op. cit. p. 4.
13. Op. cit. p. 19.

as everything is a cause of everything else in interlocking manner; and an upward movement of the entire system may be achieved by measures applied to one or other of several points of the system, however, this does not mean that it is a matter of indifference as to 'where and how a development problem is tackled. The more we know about the way in which the different factors are inter-related ... the better we shall be able to establish how to maximise the effects of a given policy effort ...' [14], [15].

B. Inter-regional Inequalities - 'Backwash' and 'Spead' Effects.

Myrdal applies the principle of circular and cumulative causation to explain both inter-regional and international inequalities. He maintains that if 'things were left to market forces unhampered by any policy interferences, industrial production, commerce, banking, insurance, shipping and indeed, almost all those economic activities which in a developing economy tend to give a higher than average return and, in addition, science, art, literature, education and higher culture generally-would cluster in certain localities and regions, leaving the rest of the country more or less in backwater' [16].

Initially these localities and regions may have been favoured by natural conditions, for example conditions suitable for port facilities, or the existence of ample coal, iron, or other resources. However, within broad limits we may say that the existing 'power attraction of a centre has its origin mainly in the historical accident that something was once started there'[16]. Thereafter the increase of external and internal economies such as a trained working population, improved communications, a spirit of enterprise etc., contributed to a further economic spur in a circular and cumulative manner. But, more important, Myrdal considers that the sustained growth of these economically flourishing regions and localities takes place at the expense of other regions 'where stagnation or still regression is the pattern'. If the play of market forces is left unhampered it contributes to the emergence of 'backwash' effects, that is effects which create 'competitive impact by which expansion

14. Myrdal, op. cit. p. 20.

15. Myrdal's exposition refers exclusively to the non-Soviet world. In the Soviet world a different economic system prevails, for there is not only state planning but also public ownership of the means of production. Finally, international economic relations are exclusively directed by state monopolies.

16. Myrdal, op. cit. p. 26.

in one area are may hamper similar changes elsewhere' [17]. This process develops in the following way : trade, capital movements, and migration between regions, argues Myrdal, do not counteract the tendency towards regional inequalities but they are rather the media through which economic expansion is intensified in rich regions and poverty in poor ones.

Regions where economic activity expands attract net immigration from other parts of a country, but as migration is selective, at least concerning the migrants' 'age, this movement tends to favour the expanding regions, at the expense of poor ones. Capital movements have similar adverse effects on poor regions. In expanding regions, opportunities for investment are favourable and increases in savings satisfy the demand for further capital formation. In poor regions incomes and savings are low and these low savings are not easily invested owning to a relative lack of demand. Moreover, studies in many countries have shown that banking systems, if not regulated to act diffently, tend to siphon off savings from poor regions into rich ones. Further the freeing of trade between regions confers substantial competitive advantages to industries in rich regions so that existing handicrafts and small industries in poor regions are further towarted. (For example, the hampering of industrial progress in Southern Italy caused by the political unification of Italian provinces). Finally, if poor regions are left to themselves they could not afford to keep up adequate road systems, education and public utilities etc., and as a result agricultural productivity would be lower and primitive beliefs and taboos would prevail. Generally these regions are not susceptible to the experimental and ampitious aspirations of a developing society. As these frustrating effects of poverty, operating through other media than those analysed by the traditional theory, are interlocked in circular causation, the one with the other and all with the biases referred to in the working of migration, capital and trade' [18].

But apart from 'backwash' effects there are also centrifugal 'spead' effects of expansionary momentum originating from the progress of rich regions. In other words, these spread effects are 'the multiplier effects by which development in one region stimulates development elsewhere' [19]. Such expansion creates additional demand for agricultural products and

17. See Knox's a review of Myrdal's theory 'Economica' August 1960, p. 281.
18. Myrdal, op. cit. p. 30.
19. Knox, op. cit. p. 281.

possibly for extractive materials also, thus promoting economic activity in poor regions. If these expansionary effects are of adequate momentum new centres of self-sustained growth will emerge. Spread effects, of course, develop in a circular and cumulative way.

The tone therefore of regional economic development is a function of the prevalence of spread effects over backwash effects. If these are in balance a region will stagnate but this does not establish the assumptions of an equilibrium analysis. Myrdal distinguishes two correlations based on a study made by the United Nations Economic Commission for Europe concerning a number of countries [20].

First, the disparity of incomes between regions are much wider in poor countries than in rich ones. This was found by examining the proportion of the total population of a country living in regions where average income is less than two-thirds of the national average. This proportion is very low in Great Britain and Switzerland, about ten per cent in France and Norway, and about 35 per cent in Italy, Turkey and Spain. Secondly, while rehgional inequalities have been diminishing in rich countries of Western Europe, the opposite tendency operates in some poor countries. Relying on these important conclusions Myrdal establishes the following postulates: the higher the level of economic development which a country attains, the stronger will be the spread effects; the more backward a country is, the more backwash effects will prevail.

This may be explained in the following way: a higher average level of economic progress is accompanied by better transportation and communications, a higher level of education and a more dynamic communion of ideas and values, all of which tend to strengthen the centrifugal spread expansion or remove obstacles to its operation. In more general terms the extinction of poverty on a large scale helps towards the fuller utilisation of a people's potentialities and this is one of the reasons why rapid and sustained growth becomes almost automatic in a country that has reached a high level of development.

In contrast, part of the cause of the prevailing low level of development in underdeveloped countries is the fact that spread effects are weak and backwash effects strong. This means that the free play of market forces contributes to the creation of strong regional inequalities and this fact is in itself a major impediment to growth. In other words,

20. 'Economic Survey for Europe', Geneva, 1955.

this is one of the interlocking relationships in a cumulative process by which 'poverty becomes its own cause'.

Finally, Myrdal stresses the fact that advanced countries in pursuing welfare policies tend to reinforce the market forces creating backwash effects. Such policies are of limited extent in poor countries and therefore the market forces producing backward effects are relatively unhampered.

C. International Inequalities.

Inter-regional inequalities, argues Myrdal, are closely related to international inequalities and the prevalence of the former in poor countries substantially contributes to the latter [21].

It is recalled that Myrdal maintains that spread effects in advanced countries are strong enough to curtail backward effects and that regional expansion may be reinforced by the pursuit of welfare-state policies. In other words, growth becomes, more or less, sustained. Underdeveloped countries are in comparison strongly affected by backwards effects. In addition the relative absence of welfare-state policies contributes to acute inter-regional inequalities and to low rates of growth or even stagnation. Under such conditions, Myrdal maintains that international trade, capital movements, and migration, far from contributing to the transplantation of economic progress from advanced countries to underdeveloped ones are rather the media through which economic stagnation in the latter countries is perpetuated.

The widening of international markets often strengthens rich countries whose industries, being fortified by surrounding external economies, creat a continuous danger to handicrafts and other small scale industries in poor countries in the absence of tariff protection.

Similarly, capital movements cannot be relief upon to counteract international inequalities. In the absence of exchange control, capitalists in underdeveloped countries would export their capital to advanced countries where they can expect both good profits and security [22].

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21. For the purpose of analysis he assumes the existence of a 'a sort of laissez-faire' international environment in the sense that there is no interference with the 'play of market forces' from an organised world community. In addition he assumes that policies in poor countries are not different to what they have been traditionally.

22. 'Even with such controls in existence', Myrdal says, 'there is actually a steady capital flight going on from underdeveloped countries, which in a realistic analysis, should be counted against what is of capital inflow to them'. Op. cit., pp. 53, 54.

Capital, of course, moved from advanced countries in earlier times and especially to enclaves controlled from abroad, mainly for the development of primary product export industries. But a substantial part of European overseas capital was directed to settlements in temperate zones which were populated by European migrants. After the collapse of the thirties and latter breakdown of 'colonialism' it is probable that (owing to insecurity and other reasons) private capital will not flow on a large scale into underdeveloped countries.

Finally, migration can be safely ignored as a factor for international adjustment. Population pressure in most underdeveloped countries implies that immigration is not required, moreover, because of low wages immigrants are unlikely to be attracted to such countries. Rather, emigration from underdeveloped countries would be more of a palliative; however, this is not possible for a variety of reasons [23].

It is apparent, argues Myrdal, that backwash effects operate internationally on much the same lines as inter-regionally, excepting that spread effets are weaker between nations. This is a consequence of differences, in legislation, administration, language, beliefs, standards of living etc., which make national boundaries more effective barriers to the diffusion of spread effects. More important, however, is the fact that the prevalence of strong backwash effects in poor countries themselves retards the diffusion of any expansionary momentum created by international trade. Basically, therefore, the 'weak spread' effects between countries is to a large estent a reflection of the prevailing weak spread effects within poor countries themselves.

IV. A CRITIQUE OF MYRDAL'S APPROACH

A. The General Deficiencies.

Athough Myrdal's main objection to static theory, and more specifically to the classical theory of international trade (given the arguments previously developed), seems to plausible, his idea that international and inter-regional trade (as well as capital and labour movements), favour advanced countries and regions at the expense of poor countries and regions under 'laissez-faire' conditions does not seem to

23. Restrictions on immigration have been introduced in most advanced countries. Even where immigration is more or less allowed it is of a selective nature and does not contribute to an alleviation of population pressure in non-white countries, where pressure is more intense.

reflect events in the real world. In this sections we shall discuss Myrdal's general approach, and in the next, the probable causes of international and inter-regional inequalities.

A change may create expansionary momentum if social and other surrounding conditions are favourable to it. Thus it may be possible for a change although of an expansionary nature, to have contractionary effects. This may happen when reactions of one kind or another tend to offset the inherent expansionary effects of this initial change. To illustrate this possibility we assume that a government decides to construct a railway line in a poor region in order to promote economic development - for finance substantial increases in the existing rates of progressive income taxation are imposed. Such a construction will undoubtedly create upward cumulative effects. Agricultural production (as possibly the output of extractive industries) will increase as improved transportation will provide an impetus for more specialisation and exchange. An increase in urban demand (and possibly exports) for agricultural products and raw materials may also be expected, given that reduced transport costs may lead to lower product prices. Finally, but not lastly, improved communications may help to diffuse new ideas and values and promote the spirit of enterpreneurship. Such developments have further expansionary effects not only in the favoured regions but also in the economy as a whole. An increase in the national product will increase savings and investment and the subsequent emergence of new external economies will facilitate further cumulative expansion. This example, in a very broad and simplified form, illustrates Myrdal's cumulative process. However, such a process is not always 'inexpensive'.

The imposed taxation increases may create disincentives to a further expansion of entrepreneurial activities or even discourage existing activities. In addition incentives to work may be unfavourably influnced. These contractionary effecrs are also cumulative and circular in nature. However, the extebnt of such contractionary movements depends on many factors. If profits, for example, are invested in outlets which are not very productive, as is often the case in many underdeveloped countries, then a taxation-expenditure policy may have net expansionary effects. But, if, on the other hand, government investment policy does not induce sufficient expansionary momentum to overcome the disincentives of increased taxation, the net effect on the economy may be adverse. There are of course changes which do not involve adverse growth effects or at least, the adverse effects are rela-

tively insignificant in comparison with the expansionary effects which may ensue. For example, a political change contributing to wide social and economic changes and to a breakdown of 'traditional' society and its institutions.

The idea of cumulative movements originating from a change may be acceptable as reflecting conditions in the real world. However, the construction of a comprehensive theory of economic development requires the determination of the functional inter-relationships between a constellation of growth factors. But, apart from their maltitude, there also growth factors which are not measurable, and therefore an assessment of their contribution to a growth process must involve personal judgement.

Having in mind these defects of Myrdal's theory, and the fact that his exposition of international and inter-regional inequalities is based on this general theory, we propose to examine the plausibility of his analysis concerning these inequalities.

B. Regional inequalities and 'Backwash' Effects.

Myrdal's contention that if 'market forces' were left unhampered then most economic activities with the 'bigger than average returns' would cluster in rich regions, is plausible enough. In other words, the bulk of industry and many other related activities is orientated towards an environment where the prevalence of external economies contributes to higher returns. In poor regions, therefore, agricultural activities and extractive industry would be the main sources of income and the level or culture would be relatively low. This, however, does not mean that a rich region progresses at the expense of poor regions. A logical interpretation of Myrdal's argument could suggest that: if, for one reason or another, a rich region becomes poor, then the backwash effects which originated form this region and disfavoured poor regions would disappear and the prospects for development on poor regions would be much more favourable. In this instance, emigration would take place on a large scale, savings would more or less remain in poor regions, and finally trade would not flourish substantially between the poor and once rich region, so that small scale industry and handicrafts would have a better chance to develop in the former regions. However, in examining the influence of inter-regional trade, capital movements and emigration of the development of poor regions we may suggest that these movements, far from being obstacles to economic progress, as Myrdal

maintains, are rather the media through which limited expansion is diffused in these regions.

Myrdal considers that the opening and widening of trade has adverse effects on handicrafts and industry in poor regions and concludes that these regions will stagnate. Yet, despite the fact that these economic activities may be thwarted, increased trade simultaneously stimulates local commercial activities and an increase in agricultural production by facilitating specialisation and exchange. It also fosters the diffusion of attitudes conducive to change. Further, we may stress the fact that the opening of trade between regions favours poor regions by lowering the prices of commodities previously produced and thade locally; therefore real income will increase correspondingly.

On the other hand, Myrdal contends that capital movements from poor regions to rich ones create contractionary effects in the former regions and thus perpetuate economic expansion. However, before reaching such a conclusion we must examine the prospects for investment in a poor region. Where agriculture is the main source of income, big landowners do not invest their savings productively. Instead, they 'invest' in gold, foreign exhange, hoarding, or in outlets which are not very productive, for example luxurious houses etc. Therefore the question arises of whether capital movements from a poor region create expansionary effects in this region greater than those which would obtain in the capital would remain and be invested as described. If the exported capital contributes to a further expansion of a progressing region then we may expect that demand for agricultural products will some how be stimutated and a relative improvement in a poor region become possible. Finally, if we assume that there is 'disguised' unemployment in poor regions it is possible for a corresponding part of the working population to emigrate without a significant change in the volume of agricultural production; rather, emigration may have limited expansionary effects [24]. This is so as labour which was previously unproductive is employed productively on moving, and results similar to the preceding cases will obtain. In addition, the remittances sent by migrants to their relatives will undoubtedly contribute to the enjoyment of a higher standard of living for a least part of the population in poor regions.

Apart for backwash effects, Myrdal also recognises the existence

24. Myrdal's contention concerning the unfavourable age distribution in poor regions does not seem to materially influence our conclusion.

of spread effects with, he suggests, the former prevailing in poor countries and the latter in advanced countries. Instead we may suggest that, as a general rule, the expansion of a region has favourable effects on regions with the qualification that, in advanced countries the expansionary, effects are stronger given the relatively higher level of expansion of progressing regions and in addition the comparative absence of social and other conditions inimical to growth. In underdeveloped countries, on the other hand, progressing regions are comparatively weak and social, economic, and technological conditions etc. are generally not conducive to growth, and particularly is this so in the poorer regions. The need therefore for state intervention towards promoting 'balanced' regional development does not arise from the fact that poor regions are the 'victimes' of the expansion of rich regions but rather from the inability of the latter to fully absorb the expansionary effects originating from richer regions.

C. International Trade and Factor Movements as Impediments to Growth in Poor Countries.

The conclusions that we have reached with regard to inter-regional inequalities apply with only minor qualification to inequalities between politically distant nations; trade, capital movements, and migration are, more or less, the media through which limited expansionary effects originating in advanced countries are diffused to poor ones. This diffusion, however, is comparatively weaker, between countries than within national frontiers, given the 'barriers' created by the existence of separate states [25].

Myrdal assumes 'a sort of laissez-faire' where there is no interference with the play of market forces by an 'organised world community', and that poor countries pursue a traditional policy. However, the question arises whether we can assume any kind of 'laissez-faire' under present world conditions, where interference with the 'play of market forces' by nations, or groups of nations, seem to be more or less the rule rather than the exception to it.

Private capital movements have to a large extent been confined to advanced countries, due to the relatively higher productivity of investment in these countries and also to the lack of investment security in poor countries – that is the fear of political interferences etc. In other words, to the absence of any kind of 'laissez-faire' conditions.

25. See page 916.

Migration, on the other hand, as Myrdal himself recognises, can be ignored ad a large scale palliative, given the barriers which countries place in the way of population movements, and especially those barriers discriminating against particular races, who in reality represent the bulk of poor nations.

Finally, the free movement of international trade is seriously hindered by the imposition of high tariff walls by most rich and poor countries, and also by political and other motives (for example, trade between commubnist countries and the rest of the world, the Common Market and the Free Trade Association, not to mention discrimination by individual countries etc.).

Assuming the absence of relative strong interference with the 'play of international market forces' we could expect that:

1) private capital would probably flow to underdeveloped countries in larger amounts than at present, and capital flight from these countries might not be high as Myrdal indicates;
2) free emigration would offer only limited assistance to overpopulated countries given the reluctance of individuals to move in large numbers to foreign countries, where difference in traditions, language, and many other factors are considered as obstacles to this movement. Nevertheless, a relatively higher rate of emigration would have limited expansionary effects not so much in reducing population pressure but through the remittances migrants usually send to their relatives.

To illustrate the expansionary role played by international trade we assume a 'traditional' country to be isolated. In such a society it is likely that techniques and skills are backward, that productivity and per capita income are low and that savings and capital formation are also low. In addition a sort of feudalism, with taboos and primitive beliefs is likely to prevail. Such conditions contribute to a stagnation equilibrium. We further assume that, for some reason or another, international trade opens up for such a coutry. This will gradually create conditions for a sort of specialisation on agricultural exports and consequelntly an increase in productivity and real incomes my be expected. In addition international trade is likely to effect the creation of new urban centres of economic activity; for example in and around ports. Apart from direct economic gains, a very limited diffusion of new ideas and values may take place (however such diffusion failed to be realised in many cases because of the resistance of 'tradional' societies to change etc.).

Such in general terms was the pattern of development for many underdeveloped countries when foreign trade first opened for them, and it is this pattern which classical economists had more or less in mind when they stressed the gains of specialisation. But, as we have previously discussed, specialisation on agriculture may non secure rapid development and therefore the need for diversification and protection of national industry arises. Nevertheless, these remarks do not suggest in any way that international trade and factor movement, under any sort of 'laissez-faire' conditions, are the media through which 'backwash' effects are created at the expense of poor countries, as Myrdal maintains.

Myrdal's exposition regarding international trade and factor movements is very confusing. He states, for instance, 'examples are easy to find of underdeveloped countries whose entire culture has been impoverished as trading contacts with the outside world have developed. In Baghdad, for example, of the old handicrafts for which the city was famous there survive only a few silversmiths who themselves have adopted patterns from abroad requiring less craftsmanship' [26]. This may be interpreted: if 'trading contacts with the outside world' had not developed, then business and economic progress would have been in a better position to advance. This is, of course, an unrealistic assumption, for although Baghdad handicrafts may have been thwarted, new activities and opportunities were favoured (e.g. oil trade). In addition, the 'impoverished' culture of Baghdad may be one of the causes of recent political and social changes which may bring about a betterment in economic social conditions in this very backward country.

But the question may not be for or against the existance of international trade, rather it is a choise between protection and free trade policies and this deserves special consideration. Myrdal maintains that 'laissez-faire' conditions in colonies and metropolitan powers prevented the establishment and expansion of industry on these countries. 'A metropolitan country', argues Myrdal, 'had, of course, an interest in using the dependent country as a marked for the products of its own manufacturing industry. If it took special measures to hamper the growth of indigenous industry—which often happened—this was a natural commercial policy of a country which had political domination over another country. Usually such measures, however, were not necessary, as in the absence of protective duties, which the colony was

26. Myrdal, op. cit. p. 52.

not permitted to impose, the home industry could easily undersell any competitors' [27]. But independently of these contentions the fact remains that there have been many independent countries which protected their industry, yet their subsequent economic expansion cannot be considered as satisfactory. Instead, many 'still - born' industries have been able to survive.

Myrdal recognises the importance of 'non–economic' factors in the process of economic development. Nevertheless ne gives undue emphasis to the 'play of market forces, under which trade and factor movements are the media through which economic progress is hindered in poor countries. The answer to the question of international economic inequalities is the same as that of 'why have some countries developed and others failed', and such a difficult and complex task cannot be answered in terms of international trade and factor movements only.

In any case, although international trade played a leading role in British development, and factor movements (as well as trade) in the development of the United States, Canada, Australia etc., there are instances where international trade and factor movements were either absent or, contributed only to a minor degree to the process of development. The Russian example shows clearly that development is possible in a 'closed' economy. Again, 'Germany provides a case where economic development occured at a rapid rate, based largely on the home market and with limited dependence on foreign trade' [28]. Finally, the development of Japan shows that economic development is possible without foreign capital. We may therefore suggest that international trade and factor movements are not always essential prerequisites for economic growth, and consequently they cannot alone explain international inequalities. As essential factors for economic progres we may iterate the need for major changes in social, economic, technological conditions etc., as was the experience of all advanced countries.

It is therefore apparent that Myrdal should have over–emphasised the crucial role of these factors as a whole instead of considering international trade and factor movements as the media perpetuating economic stagnation in poor countries. In this case the cause of economic stagnation of ex-colonies and other poor countries should attributed not so much to the prevalence of 'laissez - faire' conditions and the subse

27. Myrdal, op. cit. p. 57.
28. Kindleberger, op. cit. p. 245.

quent lack of protection given to national industry, but rather to the resistence or traditional societies to change. However, it must be accepted that this resistence of traditional societies to change is not solely the product of unfavourable social evolution in poor countries for in many cones it is reinforced by the 'policies' of some advanced countries.

V. CONCLUSIONS AND REMARKS

Classical theory maintains that international trade benefits both advanced and underdeveloped countries. International trade widens markets, promotes the division of labour, increases external economies and capital formation, and intensifies competition. All these events, in providing a better allocation of productive resources, are conducive to economic development according to classical and neo - classical theory.

The classical theory of international trade is valid given its assumptions but in the real world perfect competition hardly exists; factors of production may change in quality and have limited mobility within national frontiers; the international immobility of factors of production may not be universally respected; technology changes continuously; disparity between social and private cost exists; and the terms of trade may turn against agricultural countries. This theory therefore proves itself irrelevant to the problem of economic development.

Myrdal's attempt, on the other hand, to develop a substitute for the classical theory of international trade seems to be unsuccessful. In seeking to explain international and inter-regional inequalities Myrdal bases his argument on the idea of 'circular and cumulative causation'. He maintains, contrary to the assumptions of stable equilibrium and the distinction between 'economic' and 'non-economic' factors which the classical theory of international trade and economic theory generally make, that in the real world a change does not create countervailing changes which restore equilibrium. Instead he suggests that a change creates supporting changes which move the social system in the same direction but much further than the initial change.

Myrdal also considers that international and inder-regional inequalities are the product of 'mark forces' operating through the media of trade and factor movements. In other words, he submits that trade and factor movements are the media through which 'backwash' effects are diffused, in a circular and cumulative manner in both poor countries and regions. Under 'laissez - faire' conditions, international trade

thwarts handicrafts and small scale industry in poor countries, and capital may flow out. Finally emigration is generally of only limited value as a palliative.

Similarly, inter-regional trade and factor movements tend to favour richer regions at the expense of poor ones. In addition, emigration, in being selective, aggravates the situation through its unfavourable effects in the age-distribution of the population in poor regions.

Static analysis in not relevant to growth, and particularly is this so when a variety of 'non-economic' factors have to be considered. However, Myrdal's suggestion that a change creates supporting changes is only partially true. Rather we may suggest that a change generally creates both supporting and countervailing changes and that the net cumulative effect depedns on the nature of the initial change and the existing social environment.

In addition to the previously mentioned defects of Myrdal's general approach we cannot also accept his exposition of the consequences of international and inter-regional trade and factor movements on poor countries and regions. We may suggest that under 'laissez-faire' conditions international trade and factor movements create limited expansionary effects in poor countries. Although some national economic activities (for example, handicrafts etc.) may be initially thwarted, increased specialisation however, cannot be accepted ad a means for rapid economic progress (given the causes relating to the irrelevance of the classical theory of international trade to economic development) and therefore the need arises for the diversification and protection of industrial production. But protection without major social, economic and political changes etc. cannot be very successful in promoting substantial growth.

The example of countries which have developed in 'isolation' or with limited foreign trade, capital movements and migration, suggests that trade and factor movements are not always essential prerequisites for economic development and therefore they cannot alone expalain international inequalities. Finally, the problem of regional inequalities should be approached along lines similar to those for international inequalities.

The problem of international inequalities is similar to the question of 'why some countries developed and others failed' and should therefore be answered in terms of general factors contributing to economic development rather than in terms of the role of international trade and factor movements only.

However, the construction of a comprehensive theory of economic growth requires the determination of functional inter-relationships between growth factors. But apart from their multitude there are also factors which are not measurable and an assessment of their contribution to a growth progress must involve personal judgement [1].

But the fact remains that growth is cumulative in effect, in the sense that an initial change (economic, social and political) creates further supporting and countervailing changes, and therefore the task of policy-makers is to seek for the application of those policy measures which may have, taking into consideration the prevailing special conditions in each individual country, themost expansionary effects. Historical and present evidence may be of help for the adoption of these policy measures.

1. 'Economists are applying the deductive method all the time to those of their problems which are quantifiable at least conceptually, and which can therefore be handled mathematically. The consistency of beliefs and institutions with growth is not a problem of mathematics, and this why we have in recent years fought shy of tackling such matters'. A. W. Lewis, 'The Theory of Economic Growth', 1957, p. 13.