A REVIEW OF THE CONCEPT OF THE "DUAL ECONOMY"*

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The primary object of this paper is to present a methodological study which is concerned with how to clarify and evaluate the characteristics of that social and economic structure which is called "dual economy" in today's developing countries. It attempts a critical review of the concepts developed by J. H. Boeke, J. van Gelderen, J. S. Furnivall, H. Frankel, H. Myint, G. Myrdal and C. Geertz, among those who have taken the view of "social dualism." It concludes that the concept of a dual economy should be perceived in terms of "*colonial* social dualism" as a system; and that it is solely from this point of view that the nature and direction of economic development in the context of economic nationalism in developing countries can adequately be explained.

THE PROBLEM of the so-called "dual economy" has been referred to in one sense or another in the discussions on theories and policies of economic development of underdeveloped or developing countries. This is perhaps because the problem itself holds great significance. The approach of the student concerned with the dual economy is determined by the way he perceives and understands the scope of this problem. A great many interpretations have been given and a succession of controversies have taken place on the theory of the dual economy.[1]

The present writer aims at a reconsideration of the significance of the

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1 For information on the problem in Western languages, refer to the following two books: B. Higgins, *Economic Development: Principles, Problems, and Policies,* New York, W.W. Norton & Co., 1959, pp. 274–383; and G.M. Meier, *Leading Issues in Development Economics: Selected Materials and Commentary,* New York, Oxford University Press, 1964, pp. 48–89.

While there are many case-studies, the following are recent works with a methodological approach in mind: J. H. Rex, "The Plural Society in Sociological Theory," *British Journal of Sociology,* Vol. 10 (June 1959), 114–124; S. Dasgupta, "Underemployment and Dualism—A Note," *Economic Development and Cultural Change,* XII-2 (January 1964), 174–185; M. Nash, "Southeast Asian Society: Dual or Multiple," *Journal of Asian Studies,* XXIII-3 (May 1964), 417–425; B. F. Hoselitz, "Interaction between Industrial and Pre-industrial Stratification System," in N. J. Smelser and S. M. Lipset eds., *Social Structure and Mobility in Economic Development,* Chicago, Aldine, 1966, pp. 177–193.

The most note-worthy and representative work in Japanese is Noboru Yamamoto ed., *Tōnan Ajia kaihatsu to nijū-kōzō* (The Development of Southeast Asia and Dualism), Tokyo, Shiseidō, 1966, 222 pp.

problem and a systematic examination of the various ways in which the concept of the dual economy has been perceived by different writers in order to assess for ourselves the approaches to the problem of economic development in underdeveloped countries. In that sense, this essay is only a sort of first step preparatory to tackling the larger tasks with which social scientists are burdened today, namely the consideration of the theoretical framework of the modernization of underdeveloped societies, including such aspects as economic development and political systems, industrialization and social and cultural change. This step is meaningful because, in my view, the crux of the problem of the development of underdeveloped countries must be considered, not only in the context of the transition from the traditional to the modern, industrialized society, a context commonly posed in terms of "premodern versus modern," but in the related context of system-transformation and/or system-revolution in *colonially* underdeveloped countries which is commonly conceived of in terms of "revolution versus counterrevolution."

I. THE PERCEPTION OF THE PROBLEM OF A DUAL ECONOMY

What is important in the first place in examining the various ways in which the problem of a dual economy has been approached is, needless to say, to see from what point of view the student perceives his object of study, that is the dual economy. This perception determines the student's approach to his object of study, his criteria for and tools of analysis and therefore his theoretical framework. Suffice it to say that in this sense, the problem of perception is most important, and this writer does not intend here to enlarge further on the problem of the relationships between the object of study and the method of study which is fundamental to the methodology of social science.

Now, we are dealing here with the question of a dual economy in what this writer terms "countries underdeveloped due to colonialism,"[2] almost all of which were once colonies or dependencies and now called "underdeveloped countries," "developing countries" or "newly emerging nations." This historical fact more often than not slips from the student's mind and is not given consideration by him.

Second, what is important is not only the recognition of the fact that these underdeveloped countries are former colonies but to what extent the student recognizes and evaluates as the inevitable heritage of colonialism the 'dual economy' which resulted from this historical fact and how he tries to relate this recognition and evaluation to his perception.[3] Such evaluation must encompass not merely the 'dual economy' in the field of economics but also the problem of 'dualism' in the sense that the 'dual economy' also

2 Y. Itagaki, *Ajia no minzoku-shugi to keizai hatten* (Nationalism and Economic Development in Asia), Tokyo, Tōyōkeizai-shimpōsha, 1962, pp. 191–193.

3 Y. Itagaki, "Tōnan Ajia no nashonarizumu to keizai hatten—shokuminchi-shugi no isan o ikani hyōka subekika" (Nationalism and Economic Development in Southeast Asia—How to Evaluate the Heritage of Colonialism), *Ajia keizai*, III-5 (May 1962), 2–11.

permeates the fields of politics, society, and culture (the value system). This is the very reason why the problem of the dual economy is taken up as a problem peculiar to underdeveloped countries and suggests the difficulty of taking a simple approach to the problem. The problem of the dual economy is on the one hand the problem of economic development of underdeveloped countries, while on the other the implication is that this is the general problem of modernization including economic development and as such is related to the problem of the development of the society as a whole. To place the problem of the dual economy in such increased dimensions is likely to complicate the consideration of the problem in a methodological sense.

In the third place, the problem of the dual economy involves questions which are related not only to the pattern of economic development in the past in colonially underdeveloped countries but also to the pattern of devolopment policy at present and for the future. Therefore, to find a meaningful pattern in dual economies means to find the kind of pattern which is at the same time historical, theoretical and policy-oriented; in other words the kind of pattern whereby historical, theoretical and policy-oriented recognition is integrated. Here again, we come across a problem difficult to solve methodologically. We point out the concepts of "type," "system" and "stage"[4] which are most important from the viewpoint of history, theory, and policy. The question is how it is possible to coherently grasp the distinction and interrelationship among these three basic concepts. From the standpoint of existential ontology, this problem would be that of recognizing integrally the '*Zeitlichkeit=Geschichtlichkeit*' which is three-dimensional, involving the past (history), the present (theory) and the future (policy).[5] It would be possible to understand the system ('*Wirkungszusammenhang*') in terms of a type '*Gestaltzusammenhang*') and as well as in terms of a stage ('*Gestaltungszusammenhang*'). But how is it possible to harmonize the concept of a 'type' which is static-multidimensional and the concept of a 'stage' which is dynamic-unidirectional in one coherent theoretical framework? It is a challenging methodological question which must confront both those with the approach of socio-economics and those with the approach of political economies. With such a problem in mind, H. Myint emphasized that to distinguish "the different types of underdeveloped country at different stages of development"[6] is important for the theory and policy of development. In his case, however, the 'system' is a given condition and the relationship between the 'stage' and the 'type' is left out of the question; it is not suggested that there is a difficult methodological

4 Y. Itagaki, *Seiji keizai gaku no hōhō* (The Methodology of Political Economy), new edition, Tokyo, Keisō-shobō, 1963, Part III, Chapter 2, pp. 453–467; *do.*, "Criticism of Rostow's Stage Approach: The Concepts of State, System and Type," *The Developing Economies*, I-1 (January-June 1963), 8–17.

5 Y. Itagaki, *Seiji keizai gaku no hōhō*, Part I, Chapter 1 "Seisaku-teki ninshiki no sonzairon-teki kiso" (The Ontological Basis of Policy-oriented Recognition), Sections 6, 7, and 8.

6 H. Myint, *The Economics of the Developing Countries*, London, Hutchinson & Co., 1964, p. 22.

problem.

Theoretical economics sets aside for the time being the problem of historical recognition contained in the concept of 'dual economy' and tries to deal with the 'dual economy' (as historical 'type') as a theoretical 'model.' We might say that while a "type" is a concept of form (*Gestalt*) which serves to understand the meaning (*Sinnzusammenhang*) of historical realities, the model is a concept of formal logic constructed primarily by hypothesis and conditions.[7] The model is a tool of analysis to explain the interrelationships among conditions. It is undoubtedly useful for the kind of economic theory which places emphasis on operational, quantitative analysis. From such a viewpoint, the problem of the 'dual economy' has nothing to do with the concept of 'system' or 'type' but concerns 'sectors' and model analysis and may be reduced to the problem of "technological dualism" which can be understood as what B. Higgins terms "the interrelationship between factor endowment and production technique."[8] And a few models for the analysis of the 'dual economy' have actually been constructed. We ourselves do not underestimate the significance and achievements of these efforts. The remaining task is for students, whether with an approach of theoretical economics or with a socio-economic approach, to reflect constantly on the above-mentioned conceptions in connection with their respective points of view and to forge conceptual tools for both theoretical and historical analysis which are at the same time useful for development planning and development policy.

II. DUAL ECONOMY AND THE CONCEPT OF "SYSTEM"

Why is it that a great deal of attention has been given to the problem of the dual economy by those who take a socio-economic approach in working out their theoretical framework of the economic development of underdeveloped or *colonially* backward countries? Those who take the approach of socio-economics believe that the problem of the economic development of underdeveloped countries involves not only economic factors such as an increase in per capita income and increased investment for that purpose but also non-economic factors. Thus, economic development in these countries must be understood not only as economic processes but also as larger socio-economic processes. Secondly, when we speak of development, we have in mind structural change in a society. And this change must mean not organic growth or gradual evolution which is merely quantitative expansion but innovation which involves qualitative change. Therefore, the problem of structural change is one of transition from one socio-economic system to another socio-economic system.

Third, the contemporary underdeveloped countries about which we con-

7 T. Pütz, "Zur Typologie wirtschaftspolitischer Systems," *Jb. für Sozialwissenschaft,* XV-2 (1964), 133.

8 B. Higgins, "The 'Dualistic Theory' of Underdeveloped Areas," *Ekonomi dan Keuangan Indonesia,* Pebruari 1955, 73; *do., Economic Development,* pp. 314–344.

sider the problem of structural change in the sense mentioned above are more or less 'heterogeneous societies.' Aside from the particular characterization of this heterogeneity, the heterogeneous society, unlike the homogeneous society, is extremely lacking in 'social adaptability' or 'social mobility.' This is the major cause for the obstructions to structural change, transition, or endogenous, autonomous development of the society. These three points are shared at least by those who take the approach of socio-economics in dealing with the problem of economic development of contemporary underdeveloped countries. The problem then is how to grasp the 'heterogeneity' of the society.

As is well known, it was J. H. Boeke (1884–1956) who first tried to understand this heterogeneity not in terms of industries (sectors), regions or races, and much less in terms of "a more or less continuous scale of homogeneity"[9] as Higgins put it in connection with his criticism of Boeke, but as *sui generis*. It was Boeke who propounded the concept of the 'dual economy' and the problems involved in it. I will not explain Boeke's theory of the 'dual economy' and the history of the controversies that ensued, since I have previously discussed them in other article.[10]

Now, the concept which Boeke used in his efforts to grasp the structure of the 'heterogeneous society' as a whole was the concept of the 'system' (*stelsel*). Obviously, Boeke borrowed the concept of the 'system' from W. Sombart and his definition of the 'system' is almost the same as Sombart's. Boeke characterized a society in terms of the social spirit (*de geest*), the organizational form (*de organisatievormen*) and the technique (*de techniek*) and gave the name of social-economic system (*het sociaal-economisch stelsel*) to an entity in which these three elements were integrated in some meaningful manner. According to him:[11]

> "where ... simultaneously two or more social systems appear, clearly distinct the one from the other, and each dominate a part of the society, there we have to do with a dual or plural society."

According to Boeke, the normal historical development of a 'homogeneous

9 B. Higgins, "The 'Dualistic Theory' of Under-developed Areas," *Economic Development and Cultural Change,* IV-2 (January 1956), 106. (This article is the summary of the same author's previously cited article with the same title in *Ekonomi dan Keuangan Indonesia.*)

10 Cf. Y. Itagaki, "Some Notes on the Controversy Concerning Boeke's 'Dualistic Theory': Implications for the Theory of Economic Development in Underdeveloped Countries," *Hitotsubashi Journal of Economics,* I-1 (October 1960), 13–28. Also refer to the following excellent criticism of Boeke by Professor Hideo Yamada: "Boeke's View of Eastern Society—with Special Reference to His Critics," *The Developing Economies,* IV-3 (September 1966), 334–348. Still another criticism was made by Professor Sadli, an Indonesian economist, in M. Sadli, "Some Reflections on Prof. Boeke's Theory of Dualistic Economics," *Ekonomi dan Keuangan Indonesia,* Djuni 1957, 363–384. (In p. 379, he criticized Boeke in terms of Dutch colonialism.)

11 J. H. Boeke, *Economie van Indonesië,* Vierde herziene druk, H. D. Tjeenk Willink & Zoon, N. V., Haarlem, 1953, blz. 3; *do., Economics and Economic Policy of Dual Societies as Exemplified by Indonesia,* New York, Institute of Pacific Relations, 1953, p. 3.

society' has a transitional stage in which two different systems appear mixed one with the other. Even in this case, the society in question is a single social-economic system, because this is a phenomenon which comes about as "a process of endogenic social progression, of evolution." This is not what we mean here by a dual society. Boeke's dual society is a society in which "Western capitalism imported from abroad" had had the impact of partially disintegrating the "pre-capitalistic agrarian community" and yet kept the latter's system distinct, thereby resulting in the coexistence of the two different systems with no possibility of a transition from one to the other. Such is the dual society and dual economy as understood by Boeke. In this way, with Indonesia as his primary example, Boeke generally understood the heterogeneous structure of an underdeveloped society by means of the concept of "system," characterizing the said heterogeneous structure as the conspicuous duality of the simultaneous coexistence of two systems and refused the 'stage' concept on the ground that there was no transition from one system to the other.

Boeke made some overgeneralizations and exaggerations in his methodology and fact-finding. For instance, he called for the necessity of Oriental economics or economics of dualism in place of Western economics. He was too strict in applying the concept of the 'system' and interpreting structural change. He over-idealized the *'Gemeinschaft'*-like character of the agrarian community. He overemphasized such factors of social psychology as social needs and economic needs, limited wants and the lack of profit motive. The development of a series of controversies[12] which arose in this connection did not necessarily turn out to be fruitful. He is partly to blame, because he took too rigid a stance in the polemic. At the same time, blame must be laid on most participants in the polemic who did not try to correctly understand the true significance of the problem as set forth by Boeke but who became absorbed in raising marginal and irrelevant criticisms. Reviewing the history of the said polemic, Professor Wertheim said:[13]

> "but it is appropriate to emphasize that Boeke discovered and analysed a complex of problems which scholars before him had passed by unaware. His great merit was that by positing his theory of dualism he directed the attention of scholars... to a *terra incognita,* and in so doing helped to create a basis for the better understanding of economic life in the underdeveloped areas of the world."

Professor Wertheim went on to point out that the problem of the dual economy as set forth by Boeke remained yet to be solved and called for renewed recognition of this problem.

12 The following is a convenient collection of articles written by Dutch scholars by way of criticizing Boeke: W. F. Wertheim ed., *Indonesian Economics: The Concept of Dualism in Theory and Policy,* The Hague, W. van Hoeve Publishers, Ltd., 1961, 443 pp.

13 W. F. Wertheim ed., *op. cit.,* p. 29.

III. "DUAL ECONOMY" VS. "PLURAL SOCIETY"

While Boeke expounded the dual economy in terms of a system theory, it was D.H. Burger (1900–) who criticized Boeke's theory from the viewpoint of a stage theory. No detailed explanation will be made here on the dispute between Boeke and Burger which this author has considered on a previous occasion.[14] In short, the question boils down to the difference between them in the way they understood the concept of system. One reason why the controversy between Boeke and Burger was not meaningful was that while Boeke borrowed the concept of 'system' from Sombart and yet tried to interpret it in his own way, Burger refused Boeke's interpretation and intended to be faithful to Sombart's definition. But, the fundamental problem which set them apart was the question as to whether the economic and social changes which took place in Indonesia were to be regarded as the kind of structural change which could be interpreted as the transition from the pre-capitalistic to the capitalistic system or more specifically as the burgeoning of early capitalism. Burger was affirmative while Boeke persistently took a negative attitude. Incidentally, in this case, the question ought to have been raised as to how to define the social stratum which shouldered early capitalism. However, no serious attention was paid to this question; the controversy revolved exclusively and barrenly around the concept of system. And this problem subsequently was taken up from different angles by other writers.

One of these writers was J. S. Furnivall (1878–1960). He also noted the heterogeneous character of Southeast Asian societies such as Burma, Malaya and Indonesia and termed these heterogeneous characteristics "plural society" and "plural economy." Boeke himself seems to have affirmed the possibility of the emergence of a "plural society" and a "plural economy" in his definition introduced earlier but because of his system theory he expounded a dual social-economic system and nothing else.

Furnivall's definition of a plural society bears astonishing resemblance to Boeke's definition of the dual economy. Furnivall said: "There is a plural society, with different sections of the community living side by side, but separately, within the same political unit."[15] Upon closer comparison, however, it becomes clear that what both definitions have in common is that different elements exist side by side but distinct from each other. And the different elements which exist in this manner are "systems" in the case of Boeke and "sections of the community" or "social orders" in the case of Furnivall. Furnivall did not adopt so rigorous a system concept as Boeke's. The "social orders" or "sections of the community" mentioned above are conceptualized in terms of the racial composition of the society concerned. Furnivall tried

14 Refer to Y. Itagaki, "Some Notes on the Controversy Concerning Boeke's 'Dualistic' Theory," 17–20.

15 J. S. Furnivall, *Netherlands India: A Study of Plural Economy,* Cambridge, Cambridge University Press, 1939, p. 446; *do., Colonial Policy and Practice: A Comparative Study of Burma and Netherlands India,* Cambridge, Cambridge University Press, 1948, p. 304.

to show that sections of the community or social orders differentiated along racial lines each had different economic functions. For Furnivall, the racial composition is meaningful because it is the basis of differentiation not only in terms of ethnicity, language, religion, morals and customs, but also because each section of the community, like an "economic caste,"[16] performs a different economic function along racial lines in the economic field as well. Boeke's social pluralism is not mere racial pluralism in this sense. S. H. Frankel, who referred to a "multi-racial society"[17] in his analysis of the society of South Africa, dealt with "industrial castes" along racial lines. Frankel's conceptualization in this respect is quite the same as Furnivall's.

Now, what is the essential characteristic of such a plural society? Furnivall found it in the lack of a "common social will" in the society concerned.[18] In his view, the plural society which is not "a unitary and homogeneous society" lacks what J.-J. Rousseau called *la volonté générale.* It has only "*la volonté de tous*" as the aggregate of wills of subsocieties. Since there is no social need of the society as a whole which is shared by all its members and there is no national consensus, each section of the society sticks to its own narrow point of view without trying to understand those of the others; it is very sectarian.

In economic terms, there is no "common social demand" because of the lack of common social needs and we can find only collective demand as the aggregate of partial demands. Also in the field of production and distribution, each section of the community, like a caste, has its distinctly fixed occupational function and there is no free mobility between sections of the community in this regard. It is to be noted in this connection that the above fact means not only that the market is imperfect but also that economic forces in the market freely play themselves out in an uninhibited concentration on the profit motive in the fields of production, exchange, and distribution and relentless material selfishness due to the lack of the restraint of common social will. And as a consequence, the rivalry and conflict between the economic interests of sections of the community become more and more serious, leading to increased economic inequality. This economic characteristic of the plural society implies strong disintegrative forces at work within the society.

It would then be in order to consider the structural change of the society which results therefrom. How are we to interpret this structural change and the role of the social group which is conducive to bringing this about? Is

16 J. S. Furnivall, *Netherlands India,* p. 450.

17 S. H. Frankel, *The Economic Impact on Under-Developed Societies: Essays on International Investment and Social Change,* Cambridge, Mass., Harvard University Press, 1953, pp. 120–126. In saying "they might argue, especially, that in a multi-racial society there can be no general interest, but only the particular warring interests of its diverse racial groups. I disagree with this view," (p. 123) Frankel implicitly criticized Furnivall's outlook. But, he completely shared Furnivall's view on the rigidity in the social mobility between social groups.

18 J. S. Furnivall, *Netherlands India,* p. 447; *do., Colonial Policy and Practice,* p. 306.

it possible to consider this problem in connection with that of the transition from one system to another? Here lies the point at issue between Furnivall and Boeke between whom there was a sharp divergence of opinion. In the plural society as defined by Furnivall, the Westerners, who are in a dominant position, constitute the topmost social stratum as government officials or managers and owners of large businesses, plantations, and banks. The overseas Chinese and Indians occupy the intermediate position as wholesalers, retailers, dealers or money-lenders while the indigenous people form the lower strata of society as unskilled workers and peasants. In other words, such a society consists of three layers of social strata. Furnivall finds great significance in the social and economic role and position of the so-called foreign Asiatics such as the overseas Chinese and Indians in such a plural society. He finds a double function in the economic role of foreign Asiatics. On the one hand, foreign Asiatics respond as an intermediary to the economic impact of European entrepreneurs and in that sense play the role of a buffer to cushion the contact between the modern world and the indigenous society. In that process, they dominate the local economy and accumulate capital. On the other hand, foreign Asiatics develop medium- and small-scale businesses and plantations vis-à-vis European economic forces. In this respect, there is a tendency for them increasingly to play the role of "competitor" rather than intermediary. Furnivall thinks that this double economic function which foreign Asiatics play explains to some extent why the social stratification of the plural society does not disintegrate at a rapid speed. Instead the various social strata coexist in comparative stability. At the same time, Furnivall tries to establish that foreign Asiatics virtually shouldered early capitalism.

Contrary to Furnivall, Boeke is strongly opposed to the theory of the plural society from his viewpoint of system dualism. Boeke himself reluctantly recognized some degree of structural change as a phenomenon of social disintegration. Nor did he underestimate the economic role played by foreign Asiatics. But what Boeke considers a central problem concerning structural change is whether the pre-capitalistic system of the indigenous society evolves to the capitalist system. In Boeke's view, the economy of the foreign Asiatics does not constitute a distinct social and economic system. This group may appear to shoulder early capitalism but that is a wrong impression. In Boeke's opinion, the economy of the foreign Asiatics "depends" on and is "absorbed" by Western high (mature) capitalism. The former is the "organ" (*orgaan*) and "offshoot" (*uitloper*)[19] of the latter and only strengthens the dual economic system.

IV. THE COLONIAL SYSTEM AND "DISEQUALIZING FACTORS"

Thus, in his controversies with Burger and Furnivall, Boeke would not concede that the indigenous society as a pre-capitalistic agrarian community might have any structural change which would affect his system concept.

19 J. H. Boeke, *Economie,* blzn. 28–29; *do., Economics and Economic Policy,* pp. 14–15.

The sole ground for his view is the lack of an economic motive on the part of the indigenous people. But is this true? And even if it is true, can the factor of social psychology account for everything?

First, the criticisms of Boeke's theory were in the end weak for all the supporting counterproof which served only to show that the difference was a "matter of degree." However, more important was a factor other than that of social psychology. Furnivall was perceptive enough to point out that the lack of an economic motive on the part of the indigenous people was the product of Dutch policy:[20]

> "the consistent policy of the Dutch Government to conserve, so far as possible, the native social order must have tended to keep it of subordinate importance, so that this policy, with all the benefits which were implicit in it, omitted to cultivate the development of economic activities among the people."

That is, Furnivall thought that the lack of an economic motive on the part of indigenous people was to be explained not by a psychological but by a policy factor. Boeke used the term "colonial" in his prewar works but after the war replaced it with the word "Oriental" and emphasized that the "dual" system was peculiar to Oriental society,[21] regardless of changes in its political status. But, as Boeke himself had to admit the dual system came into being because Western capitalism was "imported from abroad."[22] What is the fundamental character of this imported capitalism? In this connection, J. van Gelderen (1891–1940), another Dutch scholar, grasped the character of imported capitalism in terms of "colonial" capitalism, though not by way of explicitly criticizing Boeke. In so doing, he brought to light the continuation of the dualism of alien and indigenous elements (*uitheemsche en inheemsche elementen*) as well as the "stagnation" and "ossification" of the indigenous agrarian community.

According to van Gelderen:[23]

> "A colony is by definition a creation of a political nature, based on the exercise of power over a people by a foreign people organized in a state. For our purposes it is characteristic that the foreigners dominating the political system are at the same time persons who own or manage essential elements of the colony's economy."

20 J. S. Furnivall, *Netherlands India,* p. 456. Note in this quotation the strong reservation "with all the benefits which were implicit in it" which can be interpreted as "in spite of the intention of Dutch ethical policy." Wertheim and Giap proved that this ethical policy brought about "static expansion," "shared poverty" and "increasing rigidity of the traditional structure"; W. F. Wertheim and T. S. Giap, "Social Change in Java, 1900–1930," in Immanuel Wallerstein ed., *Social Change: The Colonial Situation,* New York, John Wiley & Sons, 1966, pp. 363–380.

21 J. H. Boeke, *Oosterse Economie: Een Inleiding,* Tweede herziene en bijgewerkte druk, Servire, Den Haag, 1954, blz. 9.

22 J. H. Boeke, *Economics and Economic Policy,* p. 4; *do., Economie,* blz. 4.

23 J. van Gelderen, *Voorlezingen over Tropisch-Koloniale Staathuishoudkunde,* H. D. Tjeenk Willink & Zoon, Haarlem, 1927, blz. 5.; W. F. Wertheim ed., *Indonesian Economics,* p. 116.

Therefore, a colonial economy can be understood only as the combination and mutual restraint of the alien element with this political and economic power and the indigenous element. Therein lies the heterogeneity of the functioning process (*de heterogenie van het arbeidsproces*) out of which arises the "dual economy." Van Gelderen thinks that the crux of the matter lies in the heterogeneity.[24] From this viewpoint, he made a detailed analysis of the colonial economy in Indonesia and clarified how the alien element held a dominant influence over the labor relations and patterns of income distribution of that country. That is, while recognizing a factor of social psychology in the "adaptation" (*'aanpassing'*)[25] of the indigenous element to its environment, van Gelderen made clear how the function of the alien element determined the labor relations and the markets of land, labor, capital, and commodities.

In the process of making the colony as a system (*het koloniale voortbrengingsstelsel*) "two tendencies which characterized the economic life were further strengthened: the dominance of agriculture as the major means of livelihood and the tendency of the level of cultivation reached in the past towards stabilization, towards ossification. That is, the stimulative function of exchange economy was either kept out or performed only through the channel of the intermediary of aliens."[26] Thus, van Gelderen correctly recognized that the heart of the problem of a dual economy was the dualism of the alien colonial economic system and the indigenous national economic system. He saw with keen insight that the continuation of the dual system was due to the "heterogeneity of the functioning process."

H. Myint, a Burmese economist, gave the name of "colonial economic pattern" to the "opening-up process of an indigenous society to outside forces in the form of trade, investment and colonial rule." And he found the main characteristics of this pattern in the dual economy of the "mining and plantation sector" and the "peasant subsistence sector."[27] Myint did not lay stress on the system concept, but found it significant that the dual economy persisted because the mining and plantation owners out of their conventional beliefs stuck to "their cheap labor policy which ... perpetuated the pattern of low wages and low productivity"[28] and because "the mines and plantations [could] not function as the 'leading sector,' diffusing modern technology and skills to the underdeveloped countries."[29] Moreover, it was due to the "immigrant labor system" introduced by mines and plantations that this low-wage pattern was maintained not only in overpopulated but also underpopulated countries.

24 *Ibid.*, blz. 5.

25 *Ibid.*, blzn. 7, 19, 43.

26 *Ibid.*, blz. 123.

27 H. Myint, *The Economics of Developing Countries*, pp. 23, 38–68, and 73. Myint points out that the dual economy as viewed in terms of economic organization and method of production is "paralleled by" the *financial dualism* in the form of the "organized money market" and the "unorganized money market." (p. 72.)

28 *Ibid.*, p. 64.

29 *Ibid.*, p. 67.

This condition was conducive to the emergence of what Furnivall called a plural society and the disequalizing factors of cumulative effect working in plural society caused the "fossilization of the backward peoples in their conventional roles of undifferentiated cheap labor and unspecialized peasants producers."[30] In this case the economic inequality as identified by Myint is not only inequality in the distribution of incomes as a result of participation in economic activities but also inequality in the sense of limited opportunities and roles in participating in economic activities in the first place. And Myint attaches greater importance to the latter. It must be emphasized here that the "ossification" as van Gelderen put it and the "fossilization" as Myint put it was the product of the "heterogeneity of the functioning process" according to van Gelderen and to the "disequalizing factors" according to Myint and that such ossification was the product of the tendency for these forces to work cumulatively.[31]

Gunnar Myrdal understood this cumulative tendency of economic inequality as a "social law" in general and formulated it as the principle of "the circular causation of a cumulative development process."[32] According to Myrdal, in underdeveloped countries with the free play of market forces, "backwash effects" constantly work so strong as to offset "spread effects," tending to strengthen inequality through the logic of the circular causation. He points out that this tendency is stronger in underdeveloped countries which have experienced colonial rule.

For all these reasons, colonialism meant primarily only a strengthening of all the forces in the markets which anyhow were working towards internal and international inequalities. It built itself into, and gave an extra impetus and a peculiar character to, the circular causation of the cumulative process."[33]

The isolative pattern of "enclave" economy, which is one of the marked characteristics of the colonial economy, hindered the transmission of developmental momentum in terms of technical skills or entrepreneurial abilities. And the bolstering of the traditional social strata by colonial government which resulted in economic stagnation brought about the social cleavages and "rigidities" of social and economic organizations which prevented the centrifugal spread effects. This is the cruux of "dual economy."[34]

In elucidating these theories, we attempted to shed light on such funda-

30 H. Myint, "An Interpretation of Economic Backwardness," *Oxford Economic Papers* (New Series), VI-2 (June 1954), 161.

31 H. Myint, "Economic Theory and the Underdeveloped Countries," *The Journal of Political Economy,* October 1965, 483.

32 G. Myrdal, *Economic Theory and Under-developed Regions,* London, Gerald Duckworth & Co., 1957, p. 11; *do.*, "The Concept of Cumulation," in Paul Streeten ed., *Value in Social Theory: A Selection of Essays on Methodology by Gunnar Myrdal,* London, Routledge & Kegan Paul, 1958, pp. 198–205.

33 G. Myrdal, *Economic Theory and Under-developed Regions,* p. 60.

34 *Ibid.,* pp. 58–60; *do., An International Economy: Problems and Prospects,* New York, Harper & Brothers, 1956, pp. 100 and 117–118. It was van Gelderen who applied the concept of the enclave for the first time. He clearly mentioned *"een geheel geïsoleerde enclave."*

mental points as the cumulative disequalizing factors at work within the dual or plural economy created under the colonial system as well as the stagnation, backwardness, and ossification of the indigenous economy. The pattern of economic development and social structural change including the above characteristics was ascertained by Clifford Geertz in his case study of Indonesia by a cultural ecological approach instead of a socio-economic approach.

This is not the occasion for us to make a detailed explanation of Geertz's new analytical viewpoint and method. He made use of A. Goldenweiser's concept of "involution" as a conceptual tool of analysis to detect the pattern of a culture in the process of social change. The concept of "involution" as defined by Geertz means "that of the overdriving of an established form in such a way that it becomes rigid through an inward overelaboration of detail."[35] Specifically, by means of the concept of "agricultural involution," Geertz attempted to show what pattern of cultural change the Javanese agrarian community of *sawah* cultivation under the colonial system produced under the economic impact of Dutch sugar plantations. According to this pattern, the economic impact gave an inducement to some rich landlords and farmers to become independent agricultural entrepreneurs. And yet, this creative and developmental element was strangled and frustrated by the Dutch colonial policy and measures taken by planters. The reverse of this cultural pattern was that peasant masses came to suffer from "shared poverty" under increasingly heavy population pressure while having their landholdings fragmented, tenant relationships complicated, and their labor relations of mutual aid made increasingly intricate in terms of economic organization. This reinforced their semi-horticultural, labor-intensive method of cultivation, in terms of agricultural technique.[36] Thus, "agricultural involution as a self-defeating process"[37] become the ecological pattern of the dominant cultural change. To this is attributed the increase in the rigidities of the traditional social structure and herein lies the ground for the continuation of what Geertz calls the "runaway"[38] dualism of the alien plantation economy and indigenous peasant economy.

V. "DUAL ECONOMY" AND SYSTEM CHANGE: CONCLUSION

Thus far, we have discussed the basic characteristics of the dual economy and pinpointed colonialism as the historical condition for the emergence and continuation of the dual economy. In so doing, we have made it clear that

35 C. Geertz, *Agricultural Involution: The Process of Ecological Change in Indonesia,* Berkeley and Los Angeles, University of California Press, 1966, p. 82.

36 C. Geertz, "Capital-Intensive Agriculture in Peasant Society: A Case Study," *Social Research,* XXIII-4 (Winter 1956), 435, and 437–447.

37 C. Geertz, *Agricultural Involution,* p. 80.

38 *Ibid.,* p. 62. Geertz sharply pointed out that the extraordinary harshness with which this "runaway" dualism developed was not unrelated to the nature of Dutch colonial policy.

we cannot understand the essence of the dual economy without considering it in terms of the social and economic system. We have also noted that, while it can not be denied that there was some structural change in the indigenous traditional system in the process of interaction of its contact and clash with the alien, modernizing system in the dual economy, such structural change was in the direction of the paralysis and rigidification of the traditional, indigenous social and economic structure. In this sense, the concept of the dual economy as posited by Boeke must still be considered useful in understanding the pattern of colonial economic development. We have already said, however, that Boeke's fatal defect was his failure to define the dual economy in terms of the colonial system.

By now, most of the former colonies have achieved independence. But, while political independence was materialized overnight, the colonial vestiges of the social and economic structure cannot be removed at a stroke. In their efforts at economic development and industrialization over the two decades since the war, the newly independent states have aimed at overcoming their heritage in terms of the dual economy. For all these efforts, these states have not always succeeded in doing away with the continued working of those disequalizing factors derived from the heterogeneous dualism or plurality in their social and economic systems. To endeavor to remove these is tantamount to moving out of the dual economy in the colonial system and establishing what Myrdal calls "national economic integration."[39] This is what this writer calls the task of the transformation from the "colonial system" to the "national system." The driving force behind this system transformation is "economic nationalism" and the effort to organize this driving force not emotionally but rationally is "national economic planning."[40]

However, in the process of making policy efforts at organization towards system transformation,[41] there is room for the possibility of "system revolution" towards a socialist system, depending upon the rigidity of the heritage of the dual economy left over by colonial capitalism. In such a case, what determines the speed, scope and form in which the simple efforts of economic

39 G. Myrdal, *Economic Theory and Under-developed Regions,* p. 51.

40 *Ibid.,* pp. 79–97.

41 Myint classified the patterns of policy efforts at organizing in this sense into "outward looking" and "inward looking" ones. He cited the Philippines, Thailand and Malaysia as "outward looking" countries, Burma and Indonesia as "inward looking" ones and India and Burma as potentially "inward looking." From our standpoint, it seems that the "outward looking" countries think of their policy efforts at "organizing" in terms of gradual "system transformation" and the inward looking ones in terms of radical "system revolution." In this connection, refer to the following two articles written by Myint; "The Inward and the Outward Looking Countries of Southeast Asia and the Economic Future of the Region," *Japan's Future in Southeast Asia,* Symposium Series II, The Center for Southeast Asian Studies, Kyoto University, July 1966, pp. 1–14; and "Economic Theory and Development Policy: An Inaugural Lecture delivered. 1 December 1966," *The London School of Economics and Political Science,* London, G. Bell and Sons, Ltd., 1967, 20 pp.

nationalism are inclined towards revolution into a socialist system? These determinants are the historical background, political power structure, social class composition, stages of economic development and the international political and economic environment. From our viewpoint, the central factor is the magnitude of social cleavage and economic tension inside the economic system of the dual economy in which the above determinants manifest themselves in a concentrated form. In short, it is the degree of rigidity of the vestiges of colonialism.

The kind of system change which we call *system transformation* is conceived of here in terms of premodern versus modern, while the kind of system change which we call *system revolution* is conceptualized here in terms of revolution versus counterrevolution. These two context are not separate from each other; the vertical axis of premodern-modern crosses the horizontal axis of revolution-counterrevolution. The theory on the policy of the economic development of underdeveloped countries must always presuppose income sense historically formed "colonial dualism." It must not merely be a "functional" strategic theory aiming at the analysis of the problems of *system transformation* but also a policy theory oriented to elucidate the problems of *system revolution*, which is "structural-functional" or, to put it in another way, is based on the freshly attacked approach of a stage theory.[42]

42 Y. Itagaki, *Seiji keizai gaku no hōhō*, pp. 453–472. Also Y. Itagaki, "Dankairon-teki shikō no sai-ninshiki—kōshinkoku kaihatsu riron ni okeru" (Reconsideration of a Stage-theory Approach—in Relation to the Theory of the Development of Underdeveloped Countries), *Keizai seisaku no gendaiteki kadai* (Contemporary Problems of Economic Policy), Tokyo, Keisō-shobō, 1963, pp. 219–234.