

THE PROBLEM OF ECONOMIC BACKWARDNESS AND THE THEORY OF ECONOMIC DEVELOPMENT

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I *Two Approaches to the Theory of Economic Development*

Generally, there are two ways of approach to the problem of economic development in Asia. One is the economic in which the area concerned is characterized as "underdeveloped countries", and the other the sociological defining the area as "backward countries".¹ Needless to say, these two are closely inter-related. Yet it is essentially important to distinguish one from the other in that "underdeveloped" signifies the resources, and "backward" the people.²

Those who define the area covered by economic development programmes as "underdeveloped countries" indicate the principal features of this area as the low national income *per capita* (poverty), low ratio of industrial output to total output and of industrial population to total population (pre-industrialization), or relative shortage of capital and equipment as compared with population and resources (scarcity of capital).³

Without doubt these three features are correlative, and owing to the shortage of capital, industrialization does not progress, and because of this standstill the level of income *per capita* remains low. Therefore, it may be natural for those taking this viewpoint to regard the raise of income *per capita*, accumulation of capital, or advancement of industrialization as important indicators of the economic development of underdeveloped countries. The report by the United Nations experts and most economic theorists share this viewpoint.⁴

It seems impossible, however, to say that basic issues of the theory of economic development of backward countries can be accurately grasped by the above-mentioned view and indicators of development.

According to Prof. Myint at Rangoon University, the problem of the so-called "underdeveloped countries" means not only that of "underdevelopment

¹ Cf. The author's article "A Review of Recent Literature on the Theory of Economic Development in Backward Countries" (in Japanese), *Hitoisubashi Ronso*. Vol. 33, No. 2. February 1954. pp. 38-69.

² H. Myint, An Interpretation of Economic Backwardness. *Oxford Economic Papers*. New Series. Vol. 6, No. 2. June 1954. p. 142.

³ Jacob Viner, *International Trade and Economic Development*. Oxford, 1953. pp. 94-98; Ragnar Nurkse, *Problems of Capital Formation in Underdeveloped Countries*. Oxford, 1953. p. 1.

⁴ United Nations, *Measures for the Economic Development of Underdeveloped Countries*. New York, May 1951.

of resources" in the ordinary sense, but also that of "economic backwardness of people". Naturally underdevelopment of resources and backwardness of people are closely connected and collaborate in aggravating the vicious circle. But the real issues of backwardness are often lost to sight, and the problem of backwardness is apt to be substituted for that of underdevelopment. The problem of backwardness presents a specific sphere which cannot be covered by the concept of "underdevelopment of human resources". Thus he urges the necessity to recognize the problem of backwardness as a major problem in its own right, and to break with the conventional notion of underdeveloped countries. He emphasizes that this is the right course in approaching the heart of the problem of economic development of today.⁵

Prof. Myint's proposition is quite significant. First of all, he tries to investigate the cause of the stagnation that is characterized by low productivity and low level of real income *per capita*, although he does not disapprove of the objective fact of the low level of the income in backward countries. It seems impossible to explain the stagnation only from the viewpoint of the shortage of capital investment. There exist many reasons which make it impossible for us to automatically apply to backward countries such programmes as are designed to increase the gross national product or the real income *per capita* at a certain fixed rate, based on the calculation of the amount of capital investment necessary, which is deduced from the capital required *per capita*, while such programmes are applicable to advanced countries. The reason is as follows. Generally, in advanced countries, a given amount of net investment can produce a process of spontaneous economic growth in the form of increase in the total amount of products or productive capacity in proportion to the capital invested, through the technical amelioration and rise of productivity, whereas in backward countries such a presumption as above is impracticable with the primary question being how to *initiate* such an economic process itself.

Therefore, it is rather mechanistic to place too much importance on the part played by capital investment as the sole means to raise the level of the national income of backward countries, calculating the total or *per capita* income of these countries and comparing these figures with those of European and American countries. It seems rather meaningless to say that about 19 billion dollars are required to raise national income *per capita* in the backward countries by 2 per cent annually, chiefly applying the mechanical process of economic development.⁶ The realities of investment in the backward countries do not justify such a simplification, and it must not be considered that economic development can be stimulated only by introducing the western pattern of economic activities, and

⁵ H. Myint, *op. cit.*, p. 142

⁶ S. H. Frankel, *The Economic Impact on Under-developed Societies*. Cambridge, 1953. pp. 100-101. "Capital investment *per se* does not originate anything other than the capital expenditure itself. It is people, who, if they possess the disposition, aptitudes, experience and knowledge, and if they find suitable environmental opportunities, alone can *originate* anything at all." He severely criticizes the authors of the United Nations Report on the Measures for the Economic Development, saying that they are indulging in a mere "intellectual exercise". (p. 95)

that the process of development will occur spontaneously and inevitably through the rapid and large-scale pouring in of capital.⁷

II *What Economic Backwardness Is*

As seen above, the problem of economic development of backward countries involves specific problems of its own, which are not solvable through a macro-economic approach, which merely takes into consideration the low level of income *per capita* or the increase of investment to raise the level. Now it is necessary for us to clarify the meaning of the so-called "economic backwardness", which is said to form the principal character of backward countries.

As Myint suggests, backward countries are those which cannot "stand on a competitive footing" with advanced countries, in the process of economic struggle, having failed to adapt themselves to the new circumstances shaped by the impact of outside economic forces.⁸

First, the unsuccessful adaptation to the new circumstances is attributable to the lack of voluntary and active attitude for life in backward countries. In this respect, those who take the sociological viewpoint express a very pessimistic opinion on the adaptability of backward people to social and economic changes. As R. Emerson points out relevantly, the Asian people still lack a creative and active attitude to remold their own circumstances—spiritual, material and social—to their own liking, despite every kind of change around them, being restrained by their traditional way of life and thought. Economic progress of society cannot be expected in Asia without a fundamental conversion of way of thinking, from submissive to creative, and from passive to active, as exemplified by the industrial revolution of Europe, which was essentially the product of spiritual revolution of the Western people. The transplantation or the effective application of machines and techniques is impossible without the necessary spiritual attitude and social structure. But, unfortunately, what is most lacking in the realities of Asia is such an active and voluntary way of life.⁹

Secondly, the incompetence to stand on a competitive footing with the advanced countries is caused by the accumulative effects of many "disequalizing factors" which are found working inside the backward countries, and between backward and advanced countries.¹⁰ Such a state of affairs resulted from the fact that, on the one hand, politically most of these Asian countries were dominated by imperialistic advanced countries as their colonies, semi-colonies or dependencies, and that, on the other hand, economically the initial gaps between

⁷ Among UNESCO's publications is a special issue on the comparative study of the "economic sense" of the people in the backward society. UNESCO, *Economic Motivations and Stimulations in Underdeveloped Countries*. *International Social Science Bulletin*, Vol. VI, No. 3. 1954. pp. 369-476.

⁸ Myint, *op. cit.*, p. 144.

⁹ Rupert Emerson, *Progress in Asia*, a pessimistic view. *Far Eastern Survey*. August 27, 1952. pp. 129-134.

¹⁰ Myint, *op. cit.*, p. 145.

backward and advanced countries in experience, opportunities, skills and capital supply, far from being diminished, were further widened by the free play of economic forces (the principle of free competition).¹¹ The monopolistic domination by the foreign enterprises and firms, development of mono-culture specializing in primary products for export, and intermediary exploitation by the so-called foreign Asiatics as middlemen or moneylenders in the plural society, all these were made possible in the colonial backward countries through the operation of the above-mentioned political and economic disequalizing factors. Thus the backward people were driven into a very disadvantageous position relative to the roles to be played in the economy, which should be distinguished from the unproportionate distribution of incomes. Here arose the stagnant state of backward people, who were fated to be unskilled workers, peasant producers and constant debtors. So the heart of the problem of economic development in backward countries cannot be dealt with unless we proceed to the problem of the "disequalizing factors" mentioned above, going beyond the problem of the distribution of income.

Viewed from the standpoint of historical and social background, the economic backwardness of Asian countries owes its origin not to the fact that much of the resources are left undeveloped, but that, although resources were rapidly well developed to the extent that market conditions permitted, the people in these countries were prevented from participating in the process of development either due to the operation of the disequalizing factors or to their unwillingness caused by the lack of a positive attitude, or owing to both of them.

III *Patterns of Structural Change in Backward Society* —Gaps between Progress and Welfare—

If the preceding analysis of economic backwardness is admitted to be adequate in the main, the economic development of backward countries, which implies the obviating of such backwardness, has to face two problems which must be solved.

The first is that of social adaptability of the natives to the impact from the outside. It is essential that the problem of economic development of backward countries should be understood, not as a mere problem of "economic process", but as one of "social process", i.e. a problem of a series of far-reaching changes of social structure. Structural change in the backward society means the process

¹¹ G. Myrdal also stresses this point: "Contrary to what the equilibrium theory of international trade would seem to suggest, the play of the market forces does not work towards equality in the remunerations to factors of production and, consequently, in incomes. If left to take its own course, economic development is a process of circular and cumulative causation which tends to award its favours to those who are already well endowed and even to thwart the efforts of those who happen to live in regions that are lagging behind. The Backsetting Effects of economic expansion in other regions dominate the more powerfully, the poorer a country is." Gunnar Myrdal, *Development and Underdevelopment: A Note on the Mechanism of National and International Economic Inequality*. Cairo, 1956. p. 47.

of "disintegration and reintegration" under the economic impact from the outside, which tends to break the old social and economic systems and to bring forth new stable patterns of social and economic behavior. This is the growth process of the activity pattern, the development of which is either encouraged or prevented by the beliefs, aptitudes and wishes of the inhabitants.¹² It is natural that there rises a strong social resistance in the process of the formation of new patterns of behavior acceptable to the society. The intensity of this social resistance reflects the degree of the coherence of the traditional society. Accordingly, the most substantial problem confronting backward countries in the process of social adaptation to the outside impact is the checking and minimizing of unnecessary social disintegration and disharmony, and the creating of new patterns of social activities.

In this connection, it must be noted that the backward society is not a unified and homogeneous one like that of the advanced nation, but a plural and heterogeneous one. Relative to the essential character of the backward society, Dr. J. H. Boeke defined Indonesia as a "dual society", and Prof. J. H. Furnivall characterized Burma as a "plural society", while Prof. S.H. Frankel named South Africa a "multi-racial society". These are three types of backward society, each of which shows typically a pattern of social structural change, that is, "resistance", "transition" and "disintegration" in the process of interaction between modern western elements and pre-modern indigenous elements.

First, according to Boeke, the Indonesian society is a "dual society" where two different "social-economic systems", the "imported western capitalism" and the "pre-capitalistic agrarian community," coexist side by side, and no transitional process takes place. Such a society as this is "closed and stationary" in spite of the economic impact from the outside.¹³

On the contrary, the "multi-racial society" in South Africa as seen by Frankel is a society which is already in the process of rapid modernization, and presents an aspect in which the economic effects of capitalism are penetrating straight into feudalistic and patriarchal native society despite resistance.¹⁴ It may be said that such a society as this is an "open and disintegrating" society under

¹² S. H. Frankel, *The Economic Impact on Under-developed Society; Essays on International Investment and Social Change*. Cambridge, 1953. p. 74.

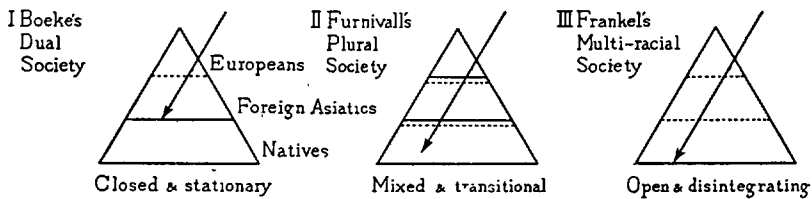
¹³ Dr. Boeke advanced "Dualistische economische theorie" as the theory of the socio-economic analysis of colonies, for the first time, in his thesis for a degree "*Tropisch-Koloniale Staatshuishoudkunde, Het probleem*" (Amsterdam, 1910), and strived constantly to elaborate his theory through many books and treatises.

His recent book "*Economics and Economic Policy of Dual Societies as Exemplified by Indonesia*" (New York, 1953), which is the English version of "*Economie van Indonesie* (vierde herziene druk, Haarlem 1953), is a representative laborious work comprehensively describing his theory. Once Furnivall made a critical comment on Boeke's theory in his book "*Netherlands India, A Study of Plural Economy*" (Cambridge, 1939. pp. 452-464). Recently, Benjamin Higgins made penetrating criticism on Boeke's theory in his article "The 'Dualistic Theory' of Underdeveloped Areas" (*Ekonomi dan Keuangan Indonesia*, Tahun Ke VIII, No. 2, Februari 1955. pp. 58-78.). I also tried to review and criticize his "Economics and Economic Policy of Dual Societies as Exemplified by Indonesia" (*Asian Affairs*, Vol. 1, No. 3. September 1956. pp. 304-308.).

¹⁴ S. H. Frankel, *The Economic Impact on Under-developed Societies*. See, especially, part II.

the impact from the outside. If Boeke's society is defined as a "closed system," Frankel's society will be characterized as an "open system".

Finally, Furnivall's "plural society" is composed of three classes of Europeans, foreign Asiatics (overseas Chinese and Indians) and natives.¹⁵ The social and economic status and role of the foreign Asiatics are very highly evaluated by Furnivall. In this plural society, Europeans who are entrepreneurs and technicians form the upper class, overseas Chinese and Indians who are retail-dealers, wholesalers, middlemen and moneylenders the middle class, and the natives, who are peasants and laborers, the lower class. The foreign Asiatics standing between the Europeans and the natives play the role of "competitors" as well as "middlemen" in relation to the Europeans, and function as a buffer which protects the natives from the impact of the modern world, encroaching upon the society of the natives whose economic sense and capability of enterprise are poor, and assuming the complete control of local economies. In such a plural society, the social structural change caused by the impact from the outside does not present itself in such a process of rapid disintegration as is seen in South Africa, but appears in a relatively stable process of transition. The three types of backward society mentioned above may be illustrated as below.



Therefore, the pattern of structural change in the backward society is not always one and the same, but varies from society to society as "closed and stationary" (Boeke), "open and disintegrating" (Frankel) or "mixed and transitional" (Furnivall), so that the types of life and behavior, dual, plural or multiple, are incapable of being homogenized or standardized. What economic development means to the backward countries is to impose an economic impetus upon the society which embraces such heterogeneous types of life and behavior. The

¹⁵ J. S. Furnivall, *Netherlands India, A Study of Plural Economy*. Cambridge, 1939. pp. 446-469.; *Progress and Welfare in Southeast Asia, A Comparison of Colonial Policy and Practice*, New York, 1951.; *Colonial Policy and Practice, A Comparative Study of Burma and Netherlands India*, Cambridge, 1948. pp. 303-312.

The point where Boeke's theory of dual society and Furnivall's one of plural society begin to differ lies in the evaluation of the social and economic role of the foreign Asiatics. Boeke considers the economy of the foreign Asiatics not to form a distinct social-economic system but to be a mere offshoot of the western capitalistic system, while Furnivall lays stress on the function of the economy which mediates between "pre-capitalism" and "advanced capitalism".

economic impetus may be an important factor to promote the economic progress of the society, although the progress cannot be in itself a cause of the welfare of the society, because a basic gap exists between "economic progress" and "social welfare" in the plural society. In a heterogeneous society the essential features of which are a difference in types of life among different races, the antagonism between economic interests which is not controlled by the common social will, and the social tension and separatism intensified by racial and religious antipathy, the gap between progress and welfare becomes more extensive in proportion to the speed of the development.¹⁶

Accordingly, it is meaningless to refer to the abstract concepts of aggregation such as an increase of income *per capita* or a raise of national income by given rate as a target of economic development, which cannot be utilized as the criteria of welfare. The purpose of development in the backward countries lies not in progress alone, but also in welfare. And so, it is extremely important for us to scrutinize the character, composition or variations of each of the patterns of welfare which correspond to the types of structural change in backward societies. In this sense, the problem of economic development in backward countries will mean nothing if it disregards the problem of social welfare connected with the structural change of the society.

IV *Organization of Economic Nationalism* —From Colonial Economy to National Economy—

The second problem involved in the economic development of backward countries is that of "disequalizing factors". It is the disequalizing factors functioning to the disadvantage of the backward people because of the dependent status of colonies, rather than inherent factors working in the backward society which prevent the people from competing on an equal footing with the advanced nations in the international economic relations. The deformation and stagnation of the backward economy was brought about by the operation of the disequalizing factors. Therefore, it must be a prerequisite of economic development to overcome such a situation and to foster and organize a "countervailing power" internally and internationally to eliminate these disequalizing factors.

The fact that before World War II almost all of the countries in Asia were the colonies, semi-colonies or dependencies of the Western colonial powers, determined the economy of these countries to be a colonial one. The essence of the colonial economy is in brief a "dependent economy", in which everything is com-

¹⁶ The gap between "economic progress" and "social welfare" was dealt with, for the first time, as a subject of study by Furnivall. All of his works are based on the cognizance of this gap.

L. Götzen tried to clarify this problem in his article "Volksinkomen en Belasting" (*Koloniale Studien*, 17e Jg. No. 5. Oct. 1933. blzn. 449-484.) by analyzing the economic effects exerted in each of the communities of Indonesians, foreign Asiatics and Europeans by the World Depression of the thirties, in terms of the fluctuation differential in incomes in each society

pelled to undergo changes in the interest of the home country. The colonial economy manifests its dependency in two ways—dependency upon the home market and dependency on the world market.¹⁷

Dependency upon the market of the home country implies that the colony is given, above all, the role of an export market of food and materials and of an import market of industrial manufactures in relation to the home country. It is obvious that this dependency gives rise to the predominant position of production of food, raw materials and other agricultural products and the underdevelopment of industrialization, both of which are typical features of the backward economy.

Dependency on the world market signifies that the structure of production in colonies is the so-called "mono-culture", in which production is centred on certain primary products which are most susceptible to the influence of the world market. It may be true that these features were brought about by the favorable conditions of the area concerned for production of tropical specialities. The extremely developed form of mono-culture, however, exposed the local economy to direct and acute effects of the fluctuations in the world market, leaving it excessively unstable.

The rise of the capitalistic colonial enterprises benefited the natives only slightly, and the distribution of incomes continued to be unproportionate. The monopolistic control of the enterprises and estates by foreigners, the intermediary exploitation by foreign Asiatics accompanying the formation of the plural society, and, above all, the decline of the native handicrafts, the dissolution of the autarky of village communities and the collapse of the traditional social systems of religion and customs, all these violently shook the very foundations of the equilibrium and stability of the economy and society of the natives. Loss of land, growth of debt, increase of unemployment, and lowering of rice consumption drove the natives into bottomless poverty.

The feudalistic system of land tenure, the low wages in labor relations, the hampered accumulation of capital, the exchange at an unequivalent rate in trade, and the constant deficit in the balance of payments, together with the low productivity in agriculture and the pressure of population upon food supply, kept the Asian economy in a state of fatal stagnation, which came to be engraved with the mark of a typical colonial dependent economy.

As a result of World War II, most countries in Asia attained political independence and became sovereign nations, although they are not liberated from the economic dependency yet. Even now the disequalizing factors have not been eliminated in international economic relations, and there can still be seen many dilemmas which confront these countries. They are urgently required to establish a "balanced and diversified" national economy freed from the mono-cultural structure of production. However, mono-cultural production needs to be encouraged in order to obtain foreign currencies which are necessary for the

¹⁷ Cf. The author's review, "The Structure of Trade in South-east Asia" (in Japanese), *Keizai Kenkyu* (Economic Review), Vol. 4, No. 3. July 1953. pp. 187-194.

purchase of capital goods for industrialization and economic development. Here lies one of the dilemmas. Another unavoidable dilemma is found in the fact that they cannot rely upon external capital aids without sacrificing, more or less, their political and economic independence, while it is very difficult for these countries to accumulate enough domestic capital because of low productivity and low income level.

After all, the countervailing power against the disequalizing factors can be found only in economic nationalism, but it must be very difficult to overcome economic backwardness only through the repulsion and resistance of nationalism. Nevertheless, it may be admitted that there is no alternative to getting rid of the economic dependency of backward countries other than economic nationalism. Then, the whole problem is how to organize this countervailing power internally and internationally so that it may be fit for the purpose of economic development of the people concerned.

The land reform, nationalization policy, cooperative movement, industrialization, protective trade policy, etc. which the governments of the countries are now taking up or promoting in one way or another may be regarded as efforts along the direction of "organization of economic nationalism". Needless to say, the governments of these countries need to be firmly founded internally and internationally in order that this organization may be successful.

Political nationalism in Asia, which has just passed the first stage of independence, now faces the problem of economic nationalism, which seeks liberation from the poverty and dependent status in the world economy. Economic nationalism in Asia is prepared to learn much from the socialist way of economic development. Nehru's suggestion on the establishment of a "socialistic pattern of a society" expressed in connection with the Second Five-Year Plan of India, puts the situation clearly. Those who try to study the future and the course of economic development in Asia should reflect upon the real issues of economic backwardness of Asia and the derivative questions thereof.