

STRATEGY AND POLICY OF ECONOMIC DEVELOPMENT IN UNDERDEVELOPED COUNTRIES: A SIGNIFICANCE OF THE STAGE THEORY

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I. *Introduction: From the "Type-Approach" to the "Stage-Approach"*

The last few years have brought a remarkable advancement in the studies of economic development theories of underdeveloped countries¹ both in deepening of the problem-consciousness and in refining the method of approach. This paper is primarily intended to point out a marked tendency toward the stage-approach from the type-approach as an indicator for deepening and refinement of present-day theories of development and clarify what implications such a change of approach has for strategy and policy of economic development in underdeveloped countries.

By the type-approach I mean the way of thinking that lays stress on the problem of how to grasp the structural characteristics of the areas destined for development. If their structural characteristics are considered to be "underdevelopment", a purely economic theory of development with a purely economic "model" approach will be formulated. If they are considered to be "backwardness", a socio-economic theory of development with a socio-economic "system" approach will be formed. And if they are considered not only to be backwardness but to be "colonial backwardness", a politico-economic theory of development with a politico-economic "stage" approach will be constructed. In this sense, differences in grasping the structural characteristics (types) of the areas determine essentially the method of approach and the structure of development theory.

When I speak of a tendency toward the stage-approach from the type-approach, there can be no doubt about that it has a close connection with the deepening of the problem-consciousness in the type-approach, that is, from underdevelopment to backwardness and from backwardness to colonial backwardness. That a purely economic concept of underdevelopment in the type-approach was taken over by a socio-economic concept of backwardness indicates that the heart of the development problem does not consist in the problems of mere capital formation, raising income, or industrialization, but in the problem of *transition* from stagnant traditional society to self-sustained modern society. If so, points of issue center around the measurement of direction, size, form, and pace of the structural changes which appear in the impact-and-reaction process of political, social, economic and cultural factors during the transition. Clearly, this is one of the important evidences of the deepening of the problem-consciousness in the type-approach.

Similarly, that a socio-economic concept of backwardness gave way to a politico-

¹ Professor Higgins has presented a comprehensive review and excellent comments on the recent studies of economic development theories. See Benjamin Higgins: *Economic Development: Principles, Problems, and Policies*. New York 1959. 803 pp.

economic concept of colonial backwardness indicates that the problem of transition does not remain a mere problem of structural change in such a evolutionary process as a series of disintegration and reintegration of traditional society. But it involves, by its very nature, structural change in a revolutionary process in terms of a series of discontinuous "jumps", that is to say, "system-change" of colonial backwardness.

Thus the deeper reflections on type-approach have attached a great significance to the concept of transitional stage between stagnation and development. And in connection with that concept, the really crucial point is that clear distinction should be made between the phase of continuous evolution and that of discontinuous revolution at transitional stage. In this situation of the problem-consciousness, one might readily recognize the significance of stage-approach. But, a more detailed explanation must be made of how such an intellectual climate has developed recent years.

II. *Development Start and Development Strategy*

The fundamental problem of the economic development of underdeveloped countries is how it is possible for them to make change the state of economy from stationary, slow-moving, or stagnant into rapidly and continuously developing. Correct understanding of all the significance of this problem would imply the importance of the transition from one stage to another, which should only be solved with a whole system of development policy that includes development strategy, as we shall see later. From a standpoint of purely economic approach, this was, first of all, taken up as a problem of "developmental start".²

Concerning this problem of development start, that is to say, the problem of how to break the inertia of stagnant economy and how to gain momentum to start towards development, a theory called "Big Push" theory was firstly presented by P. N. Rosenstein-Rodan.³ He argues that, in order to overcome the stagnant economy at the initial stage of underdeveloped countries, even "a minimum speed and size of investment" must be "big" enough to "jump" over the economic obstacles to development, if it is to have any chance of success. His theory is based on the following three theoretical assumptions of "Indivisibilities": (1) Indivisibility in the production function especially the indivisibility of supply of Social Overhead Capital (lumpiness of "capital"), (2) Indivisibility of Demand (complementarity of demand), (3) Indivisibility (kink) in the Supply of Savings (the zero or very low price elasticity of supply of savings and the high income elasticity of savings). With these assumptions of indivisibilities he described his basic idea of growth at the development start. Rosenstein-Rodan's "big push" theory may be said a theory of development strategy which uses a kind of "shock-treatment".

It was Harvey Leibenstein⁴ that developed "critical minimum effort" thesis with different way of explanation, although he was aware of the similar problem with Rosen-

² This term is used by Charles P. Kindleberger in *Economic Development*. N. Y. 1958. p. 309

³ P. N. Rosenstein-Rodan: *Notes on the Theory of the "Big Push"*. M.I.T. Center for International Studies, Cambridge, March 1957 (mimeographed) pp. 1-16.

⁴ Harvey Leibenstein: *Economic Backwardness and Economic Growth*. N. Y. 1957. pp. 47, 18, 21, 34, 16, 170-171.

stein-Rodan. Leibenstein attributed major characteristics of economic backwardness to (1) the low agricultural yields, (2) the lack of non-agricultural employment opportunities, and (3) the role of the general demographic characteristics in the dynamics of backwardness. He defines the state of backwardness based on these characteristics as a "quasi-stable equilibrium" system. According to his definition, a quasi-stable equilibrium means "a condition where only *some* aspects of the system are stable." "That is, after the initial disturbance of the equilibrium position the system will not settle down to the same equilibrium values as before but only *some* of the variables will return to their initial values." (p.18) In this case, by some of the variables he meant per capita income. In other words, when the system receives a certain kind of stimuli, "the initial effect of which may be to increase resources per head, but eventually there is a return to the initial equilibrium per capita income while other magnitudes remain at their expanded level" (p.21) Therefore, the efforts result merely in the expansion without development.

Hence the problem of development is that "under what conditions, or with stimulants of what magnitude, it is possible, within this framework of such a quasi-stable equilibrium, to achieve sustained growth in per capita incomes rather than a tendency to return to the low, underdeveloped, equilibrium income level." (p.34) According to Leibenstein, a necessary condition that makes sustained growth possible is to give the economy, "at some point, or during some period, a stimulus to growth that is greater than a certain critical minimum size." (p.16) Concentrating his attention on the decisive aspect of population growth in relation to income growth, Leibenstein pointed out that the increase of per capita national income can be attained only when the per capita income level is raised at and beyond the point of intersection of the one curve which indicates the level of per capita income required to generate a level of national income growth equal to the rate of population growth, with the other which shows the relationship between per capita income level and the rate of population growth (p.170). Put it in another way, the level of per capita income shown at the intersection of both curves can be regarded as "the critical minimum per capita income that has to be achieved if we are to have sustained internally generated per capita income growth" (p.171)

Thus the realization of the problem of development start produced a general theory of the "Big Push" and a specific theory of the "critical minimum effort," which aroused considerable attention of people.

Yet earlier, Ragnar Nurkse⁵ proposed the idea of "balanced growth" to be the sole measure to break, from the demand side, the state of "underdevelopment equilibrium", which is characterized as a perfect "vicious circle" in both supply and demand sides of capital formation. According to Nurkse, the reason why the underdeveloped countries lack demand for investment is that the use of capital equipment in the production of goods and services for the domestic market is limited by the narrowness of the size of the market. Since the incentives for investment are always confined with the extent of the market, all depends on how to enlarge the size of the market. Because what determines the size of the market is after all the principles of productivity, it is necessary to expand a complementarity of demand among industries, which would raise productivity. Therefore,

⁵ Ragnar Nurkse: *Problems of Capital Formation in Underdeveloped Countries*. Oxford 1953. pp. 11-17.

basic measures to be taken for the enlargement of the size of the market and the creation of incentives for investment should be "more or less synchronized application of capital to a wide range of different industries".

Nurkse's doctrine of balanced growth was criticized by Hans Singer⁶ as "premature rather than wrong, in the sense that it is applicable to a subsequent stage of sustained growth rather than the breaking of a deadlock." It is "an implausible solution" of the problem of development strategy for development start in underdeveloped countries. Nurkse's positive merit goes rather to the exploration of "disguised unemployment" to be utilized in the real capital formation as one of the means to break vicious circle in the supply side of capital formation.

Albert O. Hirschman⁷ advocated deliberately the development theory of "strategic imbalance" criticizing Nurkse's balanced growth theory and placed greater significance rather on a "sequential or chain solution" of related new investments than synchronized and multiple investments. Of course, Hirschman himself fully admitted the importance of complementarity effect of investment, on which Nurkse's balanced growth was founded, but the way of argument was quite different. While Nurkse observes the realization of complementarity effect on the horizontal level, Hirschman, on the vertical level, attaches importance to the mechanism in which investment of a certain period induces another investment at the other period through complementarity effect and external economy.

According to Hirschman, the essence of the development strategy is how to establish effective "mechanisms that tend to maximize induced investment decisions" and how to start "new development blocks" which tend to bring in the development process related new investments in a form of chain-reaction.

He emphasizes that the role of investment on the economic scene is not only "income-generator" and "capacity creator" but also, as the most important role, "pace-setter for the additional investment". For example, the fact that investment in the production of commodity A sets up strong pressures for an increase in the production of commodity B and at the same time strong incentive for the start of production of commodity C indicates such a role of investment as pace-setter. Hirschman laid stress on the third role of investment, that is, "pressures and incentives", power to push and power to pull. And he pointed out that, when investment criteria have to be elaborated in the process of industrialization, the "postponement choices", that is the way to choose AB instead of BA, the most efficient sequence on the basis of a comparative appraisal of the strength with which progress in one of the areas will induce progress in the other, is of much more importance as development strategy in underdeveloped countries than the "substitution choices", that is the way to choose A instead of B simply on the basis of a comparative productivity.

With this concept of "efficient sequences", Hirschman discusses the "unbalanced growth" between social overhead capital (SOC) and directly productive activities (DPA), and further more the "forward linkage effects" and the "backward linkage effects" that may be considered to be two inducement mechanisms within the DPA sector, throwing

⁶ Hans W. Singer: "The Concept of Balanced Growth in Economic Development: Theory and Practice", *Economic Growth: Rationale, Problems, Cases*. Ed. by Eastin Nelson, University of Texas Press, Austin 1960. pp. 71-86, 79, 81.

⁷ Albert O. Hirschman: *The Strategy of Economic Development*. New Haven 1958. pp. 78, 98, 41, 78-79, 100-104.

a light on such well-known alternatives as agriculture versus industry, export promotion versus import substitution, heavy versus light industries etc. And he concludes by maintaining that the economic growth process which aims at maximization of the *combined* or *joint* linkage effects must be "a chain of unbalanced growth sequences"

The problem-consciousness and the method of approach suggested by Hirschman as a strategic theory of development of underdeveloped countries at the development start are worth paying special attention. The major merit of Hirschman's theory exists, I would say, in his basic idea that development process must be a continuous process of discontinuity (unbalance) in terms of the most efficient sequences. In his theory of strategic imbalance which aims at the linkage effects of investments on a vertical level instead of investment effect once for all, the idea of "dimensional jumps", which do not mean circular growth within one dimension but jumping and cumulative development from one dimension to the other, is implied. In that sense, Hirschman's theory of development strategy as a theory of dimensional jumps is to have a deep implications for the theory of stages of economic development.

III. *The System-Change and the Stage-Shift*

By penetrating into the problem-consciousness of development start, the limitations of the purely economic approach will be revealed. The reason is that the problem of development start in backward countries should involve the problem of the change of socio-economic system, which is not less important than the problem of income, investment, capital formation, etc. So far as the target areas for development are neither underdeveloped nor backward countries but *colonial* backward countries, the problem of socio-economic system is of paramount importance. And so far as we consider this problem is important, it is necessary for us to change our view point from the strategic theory of dimensional jumps to the policy theory of system-change or stage-shift.

It was, first of all, Boeke, then Myint and Myrdal, that pointed out the problem of the change of socio-economic system as one of the most basic problems with which colonial backward countries are confronted.

Basic view point of the people who are in favor of socio-economic approach is that they try to understand the process of development or initial start of backward countries, not only as an economic process but also as a social process, that is to say, as a socio-economic process. In other words, the problem of development start is that of "structural change" within a society. It is not an organic growth or gradual evolution. It should be understood in linkage with the concept of *transition*, which involves the qualitative change of social system.

The problem of structural change is the problem of "transitional shift" from one socio-economic system to the other. When we take up the problem of structural change in today's backward countries, the first question that arises is whether the society concerned is homogeneous or heterogeneous. In Western society which could be regarded more or less homogeneous, structural change or transitional shift took place in the endogenically growing process. In the colonial backward society, however, which is heterogeneous, structural change would never occur endogenically.

It was J. H. Boeke⁸ that clarified the nature of the problem from this point of view. Boeke's theory of "dualistic economy" paid special attention to the heterogeneous dualism between *indigenous* socio-economic system, namely "a precapitalistic agrarian community," and *alien* socio-economic system, namely, "an imported western capitalism." He contends that this indigenous system, in spite of the impact of alien system, would not admit the process of transitional shift from the former to the latter, while emphasizing the simultaneous coexistence of both systems. In other words, the indigenous system puts up a stubborn resistance to the disintegrating forces of alien system and tends to persist to hold its own system at its core, be it not undamaged at its peripheries. Such stubborn resistance put up by the indigenous system constituted a force for sustaining economic stagnation of Asian society. Boeke's theory of dual economy after all denies the possibility of structural change towards the modernization of Asian society. However, Boeke's theory deserves our attention in the sense that it is an attempt to make clear the basic reason for colonial backwardness.

In spite of his elaborated arguments, however, Boeke overlooked one basic point at issue. He attributed the difficulties of transition in dual society from one system to the other to such socio-psychological factors as "limited wants" or "lack of profit-seeking motive" in indigenous society, but the real cause should be traced back to the more deep-seated factors.

Now, what does the capitalistic system in dual society mean? In my judgment, it is not only an "imported" capitalism but an imported "colonial" capitalism. Colonial capitalism, just because it is colonial, achieves its end in the most merciless way through extra-ordinarily free play of economic forces that detached from a controlling power of "common social will".⁹ And, in that case, what should be especially noted is that the capital brought into colonies is not mere capital but monopoly capital backed up by the colonial political power. Colonial capital as such becomes a master of the industrial life and economic activities in dual society. It means that the existence of such political and economic disequalizing factors as colonial capitalism crushes the active volition of indigenous people, deprives them of opportunities of economic activities, and causes fossilization of their roles as peasant producers and unskilled workers.

Today, almost all of the Asian countries are politically independent. But they have not yet shaken themselves free from the past colonial economic structure and dependency. Therefore they are suffering from monopolistic domination of foreign big enterprises and plantations, intermediary exploitation of foreign Asiatics (overseas Chinese and overseas Indians), uncertainty of export income of monocultural primary products and the deterioration of terms of trade.

It was colonial socio-economic system that brought about internal and international disequalizing factors which hamper developmental possibilities from within the indigenous society. Turning our eyes on such basic facts, we can understand simultaneous coexistence of capitalistic system and pre-capitalistic system in dual society and difficulties of transi-

⁸ J. H. Boeke: *Economie van Indonesië*, vierde herziene druk, Haarlem 1953, 401 blz.; *Economics and Economic Policy of Dual Societies as Exemplified by Indonesia*. N.Y. 1953, 324pp. For my critical comments on Boeke's theory, see Yoichi 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* Vol. I, No. 1, October 1960. pp. 13-28.

⁹ J. S. Furnivall: *Netherlands India: A Study of Plural Economy*. Cambridge 1939. pp.446-469.

tion process from one to the other, as was pointed out by Boeke. Social chasms and rigidities in dual society thus can be regarded as remnants of the past colonial capitalism.

Thus interpreted, the greatest problem with which colonial backward countries are confronted at the initial stage of economic development is the problem of disequalizing factors derived from heterogeneous dualism or pluralism in socio-economic system. The facts of these disequalizing factors should not be considered mere problems of such dualism as subsistence-type of economy versus market-type of economy, or rural economy versus town economy, but, if we want to disclose the reality, we must trace back to the antagonisms and tensions inherent in the heterogeneous dualism, that is, alien versus indigenous, colonial versus national economy. In other words, disequalizing factors are "*heterogeniteit des arbeidproces*" generated from power relations between alien element and indigenous element, and colonial system and national system. In this respect J. van Gelderen¹⁰ is far more advanced than Boeke in his understanding of the reality of colonial economy.

It was Hla Myint¹¹ that most emphatically stressed the point that disequalizing factors were generated from power relations of conflict between alien element and indigenous element. According to Myint, initial differences of experience, opportunity, capital, and technique which existed at the outset between advanced nation (alien colonists) and backward nation (indigenous inhabitants), were intensified solely by the unhampered play of market forces, and disequalizing factors, which work cumulatively unfavorable to the latter, brought about "the fossilization of the backward people in their conventional roles." In this sense, basic causes of economic backwardness and stagnation can be attributed to the colonial and pluralistic socio-economic system. Thus Myint concludes that the problem of development start might be solved by rational organizing effort of economic nationalism as a countervailing power to the disequalizing factors.

Gunnar Myrdal¹² also attached importance to the existence of internal and international disequalizing factors in backward countries, and focused attention on the tendency of more and more increasing economic disequalization. He formulated it as the assumption of "the circular causation of a cumulative development process".

According to Myrdal, in backward countries where general level of economic development is low, "backwash effects" always act strongly to offset "spread effects" under the free play of market forces, which has a tendency to intensify inequality by circular causation of cumulative process. He points out that this tendency is much more excessive in backward countries which were under colonial rule. He made this point when he said that "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, gave an extra impetus and a peculiar character to, the circular causation of the cumulative process" (p.60).

The greatest remnants colonialism left over to the dependent countries can be seen in the fact that colonial society was not given "national and economic integration", which is indispensable requirement for the continuous and autonomous economic growth. The

¹⁰ J. van Gelderen: *Voorlezingen over Tropisch-Koloniale Staathuishoudkunde*, Haarlem, 1927.

¹¹ H. Myint: "An Interpretation of Economic Backwardness" *Oxford Economic Papers*, Vol. VI, No. 2 June 1954, pp. 152, 163.

¹² Gunnar Myrdal: *Economic Theory and Underdeveloped Regions*. London 1957 pp. 86, 60, 58, 83, 81, 51, 67.

colonial economy can be characterized as "enclave"¹³ economy, cut out and isolated from the surrounding economy but tied to the economy of the metropolitan country. Such segregation hampered transfer of culture, including technical skills and the spirit of enterprise, and therefore the spread of expansionary momentum, to the indigenous population. He argues that the existence of the privileged classes which are, by and large, primarily interested in the social and economic *status quo* can be regarded as a support of economic stagnation which is mainly caused by the social chasms and rigidities that are inimical to the strengthening centrifugal spread effects. For these reasons, Myrdal contends that basic problem of development in colonial backward countries must be to break the socio-economic barriers and rigidities that hamper upward cumulative expansion, and to realize a "national economic integration" in the country concerned. He states that "land reforms have their significance in the national plan not only as a precondition for raising productivity in agriculture, but primarily as a means of shattering the foundations of the old class structure of a stagnating society". (p.81) "Relations between relative lack of national economic integration and relative economic backwardness run both ways." (p.51)

Thus Myrdal's conclusion is that getting rid of disequalizing factors and breaking colonial backwardness entirely depend upon national planning of national economic integration, which is assigned to the task of "rational nationalism".

The above mentioned suggests that in the light of the common view point of people who take socio-economic approach the key problem of policy for backward countries at their development start is nothing but the problem of the "system-change" from colonial to national system. The problem of "stage-shift" from traditional, stagnant society to modern, developing society will not come up unless such problem as system-change is solved, so long as the traditional is given a character of colonial backwardness. In this respect, socio-economic approach and politico-economic approach together form a united front.

Now here remains another problem concerning system-change. By system it is meant here in the context of colonial versus national system, and not in the context of capitalistic versus socialistic system. Therefore, to make distinction between the two, let us call the former "system-transformation" (socio-economic concept) and the latter "system-revolution" (politico-economic concept). And it can be said that system-revolution always requires system-transformation as its precondition.

As to system-revolution, however, there may be two possible ways for it to take either capitalistic or socialistic pattern. As a matter of fact, the third possible way might be as plausible, that is to say, so-called "mixed system" revolution of both capitalism and socialism, as is the case of India. At any rate, three possible ways are open to the colonial backward countries in accordance with their different historical backgrounds, social structures and economic conditions. In connection with these possibilities, one of the major criteria for judgment seems to be that the more severe the segregation and chasms within the dual or plural system of society and the more rigid the remnants of colonial capitalism, the bigger the possibility of system-revolution to socialist system.

¹³ For the term of "enclave". see Gunnar Myrdal: *An International Economy: Problems and Prospect*, N. Y. 1956. pp. 100-101.— "The Europeans instead established reserves for themselves in these countries, as islands in the ocean of colored people."

IV. *The Significance of the Stage Theory and Its Implications for Policy Theory*

As is stated above, the problem of stage-shift from stagnation to development involves that of system-transformation and eventually system-revolution. Thus we can see that the problem of development start in colonial backward countries must be viewed from a whole system of strategy and policy of economic development.

I use these two terms, strategy and policy, in categorically different meanings, because strategy is a kind of action designed to be most effective in making shift from one phase to the other within a certain framework of the system, and on the other hand, policy is a kind of action designed to be most effective in achieving shift from one stage to the other, changing the system itself within which strategy is to be operated.

Both of them commonly share the concept of self-negation, that is discontinuous "jumps", which is implied in the concepts of phase-shift and stage-shift. They are, however, quite different in the sense that, while the strategy is the "system of technical judgment" for choice, policy is the "system of value-judgment" for choice. The system of value-judgment embraces the system of technical judgment and the goal of strategy is determined by the end of policy.

I am not intending here to work out a systematic interpretation of policy theory. What I would like to suggest now is that policy theory for development of backward countries must have as its premise a certain historical socio-economic system (colonial socio-economic system, for example) and that it must be designed to be a theory of historical-practical formation, of which problem is likely not only sequential shift from one phase to the other but also discontinuous shift from one stage to the other. Now we have come to evaluate the role of "stage approach" and its significant implications for policy theory.

Recently Prof. W. W. Rostow presented a new theory of the "Stages of Economic Growth"¹⁴ and came into the limelight.

Rostow, from an economic historian's view point, generalized historical development process of all modern world, which includes backward countries as well as advanced countries, in five stages from the point of view of economic growth. With this he advocated the politico-economic interpretation of history that challenges Marxian historical materialism. I do not think it necessary to introduce his system of five-stage theory in detail. So I would like to confine myself to some of important aspects of his theory which have direct connection with our present issue.

The first characteristic of Rostow's stage theory is that his views are presented as a policy theory of stage-shift. It should be noted that his concept of stage is conceived as a "choice of policy" and has nothing to do with a concept of historical necessity. In this sense, too, it implies a definite challenge against the materialistic view of history.

The second characteristic is that he gives "the stage of transition" an independent and

¹⁴ W. W. Rostow: *The Stages of Economic Growth :A Non-Communist Manifesto*. Cambridge 1960, 179pp; "The Stages of Economic Growth", *Economic History Review*, Second Series, Vol.XII, No.1, August 1959, pp. 1-16; Max F. Millikan and W. W. Rostow: *A Proposal: Key to an Effective Foreign Policy*. N.Y. 1957. pp. 43-54; "The Take-off into Self-sustained Growth," *Economic Journal*, March 1956, pp. 25-48.

important position among the five stages of economic growth. Rostow's stages of growth consist of five stages, that is : (1) the traditional society, (2) the transitional society, (3) the take-off, (4) the drive to maturity, (5) the age of high mass-consumption. The most important stage among them is the third "take-off" stage. Once society enters this stage, there is no more danger of reversion nor retrogression, and old blocks and resistances to steady growth are finally overcome. It means the society arrived at the stage where sustained, regular growth became its normal condition. It is merely the matter of time and choice to advance from this stage to the stages of technical maturity and high mass-consumption. Categorically speaking, Rostow's five stages can be reduced to three stages: traditional, transitional, and modern. In other words, the last three stages can be considered to be three phases of the stage of modern society.

When we talk about the stage-shift, its essential point is that how the society can switch over from the stagnation stage of traditional society to the take-off stage of modern society through the preconditions stage for take-off of transitional society. Under what impulses did the traditional society begin the process of its modernization? What were the forces that promoted or hampered the transitional process? What forces made the transitional society taken-off and set it on the road to regular and self-sustained growth? This was the essence of Rostow's problem-consciousness and way of thinking in constructing stage theory.

In so far as stage theories of economic development have been expounded by the German historical school,¹⁵ no one has ever incorporated the concept of transitional stage in one's system as Rostow did deliberately. In this sense, Rostow's new stage theory has a great significance in the policy theory for economic development of backward countries where much attention should be paid to the transitional stage which links the first and the third stage.

Thirdly, examining critically Rostow's theory from our view point, we can hardly say that preconditions for take-off that must be prepared at the second transitional stage, have nothing to do with the analysis of stagnant factors in the socio-economic system of the first traditional society. If so, we feel, we have to raise question about what is the traditional society. A vital point concerning our interpretation of the problem is that traditional society must be classified at least into two distinct categories, namely, such traditional society as Western society which was not a colony and the other, the traditional society which was under colonial rule. Special attention should be paid to the structural heterogeneities inherent in the traditional society which was under colonialism. In this society, dualism or pluralism of power structures, economic organizations and cultural value-systems are generated out of the very reasons of having been once a colony, in addition to the stagnant characteristics common to all traditional societies. And the antagonisms, tensions, rigidities and fossilizations produced by the disequalizing factors at work in the society have become forces that make difficult or retard the switching-over from

¹⁵ Recently Professor Hoselitz has made a comprehensive and very suggestive appraisal of the theories of stages of German historical school from standpoint of economic development in underdeveloped countries. A new theory of economic development is to be produced by him with a systematization of his ideas on "patterns" and "stages" of economic growth. See, Bert F. Hoselitz: "Theories of Stages of Economic Growth," *Theories of Economic Growth*. Ed. by B.F. Hoselitz and associates, Free Press of Glencoe, Ill. 1960. pp. 193-238, and also, *Sociological Aspects of Economic Growth*. By B. F. Hoselitz. Free Press of Glencoe, Ill. 1960. pp. 1-144.

the traditional to the transitional and the shifting from the transitional to the take-off.

I cannot emphasize too strongly this point because it is particularly important for the correct understanding of the role of policy efforts at the transitional stage. Today's governments of colonial backward countries are trying in the period of transition to take up or push forward a policy of "nationalization" in one form or another. This indicates that they claim to be released from monopolized domination of foreign big enterprises, big plantations, big firms and banks with a view to eliminating the deep-seated disequalizing factors. The drive to "land reform" and "cooperatives" is nothing but the efforts to be set free from parasitic exploitation of foreign Asiatics, money-lenders and intermediaries. In short, they aim at national economic integration by "de-alienization" policy.¹⁶

The existence of such internally disequalizing factors nullified the possibility of autonomous and spontaneous development from within the indigenous societies in Asia. We should realize that the nature of the stagnant backwardness in the Asian traditional society is not so simple. And this is the basic reason why the outlook for modernization of Asian traditional society in the transitional period is so complicated, and why the establishing preconditions for take-off is so difficult. Therefore, it would not be sufficient for the preconditions merely to invest social overhead capital and create the external economy. Beside these there exists a vital need to eliminate disequalizing factors within the colonial socio-economic structures. And this vital need raises the problem of "system change" and eventually provokes the problem of "system revolution". Rostow called communism "a kind of disease which can befall a transitional society if it fails to organize effectively those elements within it which are prepared to get on with the job of modernization".¹⁷ With this statement Rostow plainly suggests how things are.

Clear definition of the traditional society at the development start is of paramount importance to understand the nature of whole socio-economic problems in transition period. In this sense, that Rostow identified the character of colonial traditional society, more or less, with the one of Western non-colonial traditional society, makes narrower the effective range of his stages of growth theory.

While we correctly evaluate the merit of Rostow's stage theory, we must refine it from new point of view and develop it as a powerful apparatus to build a policy theory of development to be more effectively applied to the backward countries.

The essence of the stage theory does not exist in the universalistic reflections on the whole process of history, nor in the theoretical devices to find the uniformities or regularities of the historical process for purposes of comparison. The point is not the problem of periodization of past history, but the dynamic inner logic of transitions from one stage to another in historical perspectives.

Shift from one stage to the other is not made without discontinuous "jumps". The inner logic of transitional shift must be based on the inner logic of self-negation. Dialectic is surely an inner logic of self-negation. But the stage theory does not take the dialectic view point. While dialectic takes the history as the self-developing logic of the idea of "absolute universality", stage theory attempts to grasp the history as the

¹⁶ This term has been created by Professor Golay. See, Frank H. Golay: "Commercial Policy and Economic Nationalism," *Quarterly Journal of Economics*, November 1958. pp. 574-587; *The Philippines: Public Policy and National Economic Development*. Cornell Univ. Press, Ithaca 1961. (Chap XIV), p.313.

¹⁷ W. W. Rostow: *The Stages of Economic Growth*, Cambridge 1960 p. 164.

“*gestaltende*” process of “relative universality” or “reflective universality”. In this sense stage theory takes the position of *Existenziale Ontologie*.¹⁸

We are not going to elaborate the concept of policy in terms of stage theory. What I just attempted to suggest is that from a new angle the significance of the stage theory should be reevaluated in the context of its implications for a policy theory of economic development in underdeveloped countries.

¹⁸ Yoichi Itagaki: *SEIJI-KEIZAIGAKU NO HŌHŌ (Methodology of Political Economics)*, Part I, Chap. 1 (The Ontological Foundation of Policy Theory); Part II, Chap. 3 (The Problem of Theories of Stages and Its Development). Tokyo 1942. pp. 35-114, 377-404.