

SOME NOTES ON THE CONTROVERSY CONCERNING
BOEKE'S "DUALISTIC THEORY": IMPLICATIONS
FOR THE THEORY OF ECONOMIC DEVELOP-
MENT IN UNDERDEVELOPED COUNTRIES*

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I. *Introduction*

In view of the present situation in the underdeveloped countries, which have not developed as much as was anticipated in the economic development programs, in addition to that the gap between the tempo of economic growth of advanced countries and that of underdeveloped countries in the post-war period has been more widened and deepened, some serious reflections on theoretical approach as well as on policy implications have been seen recently, among economists who are keenly concerned with the problem of economic development in the underdeveloped countries. To take a concrete example, Professor Benjamin Higgins has made typical remarks in this connection, suggesting on the one hand that "the final task (of the theory of economic development) will be to unite the economic and sociological approaches in a study of more deepseated factors in economic growth"¹ and insisting on the other hand upon the necessity of a "big push"² by means of economic and technical assistance on a large scale to get a stagnant economy started.

There can hardly be any doubt that it would not be adequate to apply logic of 'economic process' which is only valid for the advanced stage of economic development to the economic society whose task is primarily to *create* the "economic process" itself in

* The first draft of this article was prepared toward the end of July, 1958, when I had been studying at the Center for International Studies, M.I.T., Cambridge. It is my great regret that I had to publish this paper without any major change in its construction with no regard for the kind suggestions by professors Bert F. Hoselitz and Manning Nash because of lack of time to improve it.

¹ Benjamin Higgins: *Indonesia's Economic Stabilization and Development*. New York: 1957, pp. vi, 123.

² For the theory of "big push," see P. N. Rosenstein-Rodan: "Notes on the Theory of the 'Big Push'." Unpublished mimeograph, Center for International Studies, M. I. T., Cambridge, March 1957, 16 pp.

which economic logic is to function. In this sense, no one is likely to deny that the right orientation in the theory and policy of economic development in underdeveloped countries might be found in the problem of how to create the initial stage³ of economic development; generally in other words, the theory and policy concerning the transition process of a static traditional society into a dynamic modern society.

Special mention must be made of the initial stage that factors constituting initial stage are primarily of a highly complex nature which contains not only economic factors such as capital formation, but also non-economic factors such as political institutions, social organization and cultural pattern which make capital formation itself possible and effective. The problem of the economic process in the initial stage is to be at the same time that of social and cultural process. Consequently, neither purely economic approach nor purely sociological approach would be sufficient to fulfill the task imposed to the theory of the transition to economic development in underdeveloped countries. In this respect, as Professor Higgins rightly suggested, a certain sort of socio-economic approach as a unification of the economic and sociological approaches ought to be seriously searched for.

The objective of this paper is only relating to the critical appraisal of Boeke's theory of dualistic economy in my hope that only through its critical analysis and appraisal we shall be able to clarify the nature of task confronting the theory of the transition from not simply a traditional society but from a previously *colonial-ruled* traditional society to modern society. In my judgement, it seems of paramount importance to distinguish between a society immune from a colonial rule and such a society as was under colonial rule as regards the assumption of homogeneity of a society.⁴ In this light I thought, first of all, that it would be an unavoidable task for me to examine closely and critically the main issues implied in the controversy on Boeke's theory of "dualism", with a view to getting some insight in the inherent complexity of socio-economic approach.

II. Boeke's "Dualistic" Theory

Dr. J. S. Boeke's "Dualistic Theory" was once called "*Tropisch-Koloniale Staathuishoudkunde*"⁵ by Boeke himself and is now called "*Oosterse Economie*" (Oriental Economics).

³ By initial stage I mean the same socio-economic dimension as suggested by Prof. W. W. Rostow as the "Pre-conditions for Take-off" and by Charles Kindleberger as the "Developmental Starts." See W. W. Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto*, Cambridge 1960, pp. 17-35; "The Take-Off into Self-Sustained Growth," *Economic Journal*, March 1956, pp. 25-48; Max F. Millikan and W. W. Rostow, *A Proposal: Key to an Effective Foreign Policy*, New York, 1957, p. 44. Also see Charles P. Kindleberger, *Economic Development*, New York, 1958, pp. 309-311.

According to Rostow, stages of economic growth are formulated as follows: 1. The Traditional Society, 2. The Preconditions for Take-off, 3. The Take-off, 4. The Drive to Maturity, 5. The Age of High Mass Consumption. 3, 4 and 5 are to be considered as three stages of "Self-sustained growth" in a dynamic modern society.

⁴ From this viewpoint, it seems to me that Rostow's concept of the "Traditional Society" should be more elaborated, in order to clarify the nature and the key problems of the "Preconditions Stage".

⁵ Dr. J. H. Boeke presented his dissertation to the University of Leiden in 1910, the title of which was *Tropisch-Koloniale Staathuishoudkunde. Het Probleem*, (Amsterdam, 1910). The sub-title of his post-war English publication was "Oriental Economics"; *The Interests of the Voiceless Far East: Introduction to Oriental Economics*, Leiden 1948. (*Oosterse Economie: Een Inleiding*. Tweede, herziene en bijgewerkte druk. Den Haag 1954). He has published many books and articles, as follows:

No matter how it may be called, his intention is to emphasize a necessity of specific theory to make clear the structure of stagnant and backwardness of Southeast Asian economy which has still tropical-colonial features in its economy.

Dr. Boeke's methodological viewpoint originated in "*Der moderne Kapitalismus*"⁶ propounded by Werner Sombart. He, in accordance with Dr. Sombart's theory, characterizes the society by the three aspects which dominate the society—that is, the social spirit (*geest*), the organizational forms (*organisatievormen*) and the technique (*techniek*). He thinks that the "social-economic system" (*sociaal-economische stelsel*) is formed by the interrelation of these three aspects. He says that "where simultaneously two or more social systems appear, the one clearly distinct from the other, and each dominate a part of the society, there we have to do with a dual or plural society".⁷

According to Boeke, in the normal historical evolution of homogeneous society, different social systems appear blending each other as characterized by a transition period. However, this mixture does not prevent the society from being a certain social system. As a result, this emerges as "a process of endogenic social progression." This is not a dualistic society. Here, "dualistic society" means where Western capitalism imported from abroad ("*van buiten*") has penetrated into precapitalistic agrarian community, and where the original social system, be it not undamaged, has been able to hold its own, thus two different social systems can exist side by side "simultaneously" (*gelijktijdig*).

Dr. Boeke emphasizes "the conflict of the social system imported from abroad and the indigenous social system," aiming that "dualistic economics should be the economic theory of the interaction of two apparently different social systems—precapitalistic agrarian community (*een voorkapitalistische agrarische gemeenschap*) and Western capitalism imported from abroad (*een geïmporteerde westers kapitalisme*)—within the borders of one society."⁸

Thus, Dr. Boeke's dualistic theory emphasizes the heterogeneous dualism of the alien and indigenous social-economic systems in Asia, while attaching importance to the simultaneous co-existence of these two systems without admitting a process of transition from the one to the other. In other words, an indigenous system puts up a stubborn resistance to the disintegrating forces of modernization created by the penetration of alien systems and tends to persist in the preservation of its original system. Such stubborn resistance put up by the indigenous system constitutes a force for sustaining economic backwardness

(1) *Dualistische Economie: Rede*. Leiden, 1930.

(2) "De Economische Theorie der Dualistische Samenleving." *De Economist*, 1935, pp. 773-810.

(3) *Dorp en Desa*. Leiden, 1935.

(4) *Inleiding tot de Economie der Inheemsche Samenleving in Nederlandsch Indië*. Tweede druk. Leiden-Amsterdam: 1936.

(5) *Economie van Indonesië*. Vierde herziene druk. Haarlem, 1953.

(6) *Economics and Economic Policy of Dual Societies as Exemplified by Indonesia*, New York, 1953.

(7) "Three Forms of Disintegration in Dual Societies." *Indonesië*, April 1954, pp. 278-295.

(8) "Western Influence on the Growth of Eastern Population." *Economia Internazionale*, May 1954, pp. 359-369.

No. 6 is English edition for No. 5. It is almost the same in content except some parts which are cut because of lack of interest for English speaking people. Both are his masterpieces, which represent his theory.

⁶ Sombart, W.: *Der moderne Kapitalismus*. Vierte unveränderte Aufl., München u. Lpz. 1921, *Die drei Nationalökonomien*. München u. Lpz. 1930.

⁷ Boeke: *Economics and Economic Policy of Dual Societies*. p. 3.

⁸ Boeke: *op. cit.*, p. 5.

in Asian countries. In fact, Dr. Boeke's theory of dualistic society proved to be the manifestation of his pessimistic view on the possibility of economic modernization of Asian society.

Of course, Dr. Boeke's insistence is not without reason. But, in this case he takes Indonesian society as an example for Asian society. When he defines the indigenous social-economic system as a pre-capitalistic agrarian community, he bases his view on a "village" (*desa*). According to Dr. Boeke, a village community is primarily "a social and religious unit," in which (in "*gemeinschaftlich*" community) its members feel themselves as an inseparable part of a moral living communion, united not as a body corporate (*Gesellschaft*)⁹ which is mechanically formed among them but as a more primary one like a living organism. In this order of society, community always precedes the individual, and the human activity is determined not by individual wants or needs, but by social wants or needs. In this society, "individuality" is hidden behind "community": and a happiness or a benefit of the community is valued before that of individuals. Thus, individual wants or needs are determined by the communal bonds; temples are respected more than the home, honour is placed above riches and prestige above benefit. Moreover, this village community's being a unit of religion and custom, social wants or needs take their roots in the religious authority or traditional customs and are determined by traditional customs (*Adat*) or traditional ruler's dignity and authority. Max Weber's so-called "die traditionale Herrschaft"¹⁰ is the fundamental structure of political and social rule in this society.

What are the main economic features of this village community? In production process in this village community land forms a dominant factor of production. There, the pressure of population and the law of equal succession brought to bear upon the land, are the very causes for the sub-division of land as well as petty farming system. The method of production remains primitive bound by old customs and traditions without any progress in technology. People are merely content with a "*Bedarfsdeckungsprinzip*" engaging solely in agriculture for subsistence. Materialistic wants of each individual are limited, and the scope of division of labour and of exchange is extremely narrow. Although, in a village there is a market ("*pasar*") where a negligible amount of surplus products produced by the inhabitants are traded, such a market is not an economic agency in the real sense of the term, but a place something like a social place where the village people throng and enjoy themselves. And although money is used as a means of exchange, it is only to eliminate inconvenience in exchange. The people bring their surplus products to market without money, and bring back other products without any money after using money as a means of exchange. Namely, in this case money is bought ("buy money") by the products and its use is by no means productive but consumptive. The position of money is always C-M-C and not M-C-M. In this context, the village has no "money economy" except for "money traffic." Dr. Boeke used the terms "village money" as distinguished from "dualistic money" which circulates beyond the village confines by contact with the capitalistic economy and which performs capitalistic functions.

In this village economy of which stabilization is based on agriculture, the positions of non-agriculturists and non-landholders are usually subordinated. These people are

⁹ Boeke: *op. cit.*, p. 21: *Dorp en Desa*, Chap. II; *Inleiding tot de Economie der Inheemsche Samenleving*. Chap. III.

¹⁰ Max Weber: *Wirtschaft und Gesellschaft*.. Dritte Aufl., Tübingen 1947. S. 124.

so-called "bijwoner" (outsider) of the village, and their social positions are lower than that of independent farmers. The social division of labour in a village, since it is determined by the social needs of a village community, puts some restrictions on the scope of social differentiation both of artisan and small handicraft workers, thus placing village manufacture in a secondary position to agriculture, leaving scarcely any room for development.

In contrast to these features of precapitalistic and Asiatic agrarian community in Indonesia, what are the economic features of Indonesia's towns? The Indonesian towns have developed not as an organic interrelation of towns and villages as in the case of Western society, but as a unit of a court life of the sultan rulers and territorial chiefs, or of a consumptive life of those courtiers dependent on the former, both of whom unilaterally consume the tributes laid by farmers. At the same time the gentlemen and landlords of the villages are apt to settle in a town attracted by gorgeous city life, and spend almost all their money in enjoying life. All these features form a fundamental and consumptive phase of Asian towns. Of course, there are some productive functions and somewhat developed manufactures in the town. But, they exist solely for the purpose of meeting the demands of ruling classes who reside in towns or of town dwellers—not to meet the demands of the neighboring villages. In this respect, there is no reciprocal economic activity between town and village.

Those mentioned above are the main characteristics of a precapitalistic indigenous social-economic system of Indonesia, pointed out by Dr. Boeke. And in striking contrast with pre-capitalistic social-economic system where limited wants, absence of profit-seeking, lack of organization, and traditional methods of production prevail, there exists an imported Western capitalism, where limitless wants, endless profit-seeking, rational organization, scientific method of production are prevailing.

If it is true to say, as Dr. Boeke pointed out, that there can be a society in which two apparently different systems exist simultaneously, namely if there is no transitional process from one system to the other, then there would of course be dualism of socio-economic system. In this context, there is ample reason to emphasize the need for a new and unique theory which clarifies and deals with the contact, conflict and interaction between these two different societies.

III. *The Main Issues in the Criticisms of Boeke's Theory*

As the most comprehensive and penetrating critical comments on Boeke's theory of dualism, I would like to take up, among all, two important articles written by Professor D. H. Burger who approached from the standpoint of economic sociology and by Professor Benjamin Higgins who approached from viewpoint of theoretical economics.

1. First, Burger pointed out, from methodological aspect, the "unjust interpretation"¹¹ and application of Werner Sombart in Boeke's theory. According to Burger, Sombart upon whom Boeke himself depends, distinguished three categories by the concept of "*Wirtschaftssystem*" (economic system) in the historical evolution of western society; namely, 1) *Eigenwirtschaft* (self-sufficient economy), 2) *Handwerk* (handicraft), 3) *Kapitalismus*.

¹¹ D. H. Burger; "Boeke's Dualisme", *Indonesië* 7e jg. Nr. 3. January 1954. pp. 177-198; p. 179.

And the first two appear in the so-called "*Voor-kapitalisme*" (pre-capitalism) period, because they go ahead of the third system, capitalism. Burger contends that Sombart regards pre-capitalism as a "period" not as a "system", and therefore, Boeke who takes pre-capitalism for "system" is not right in his interpretation of Sombart.

Second, Burger states that each of these three systems, according to Sombart, has its "*vroeg*"—, "*hoog*" en "*laat*" (early-, high-, and late-) period respectively and each system is partially overlapping and "interworn" in its period in such a manner as "early" begins simultaneously at the period of "late". In this context, therefore; either of "late" and "early" periods could be regarded as "*overgangsperioden*" (transitional periods). Further, therefore, the late-medieval town *Handwerk* in pre-capitalism should be regarded as the "early" phase of capitalism. On the contrary, Boeke identifies the "early" medieval village *Eigenwirtschaft*, simply with pre-capitalism and excludes town *Handwerk* from pre-capitalism. Boeke attempts to put *Handwerk* which Sombart recognizes as an independent system in the pre-capitalistic period into capitalistic system. In this light, Boeke commits two-fold misunderstanding in the sense that first, Boeke does not consider *Handwerk* as a system as Sombart does and secondly, that he incorporates *Handwerk* which is primarily pertaining to pre-capitalism into capitalism.¹²

Thus, according to Burger, Boeke interpretes pre-capitalism too narrowly (*te eng*) on the one hand, and on the other interpretes capitalism too largely (*te veel*), without admitting "*tussenvormen*" (between-forms) which are necessary for the explanation of all phenomena and might indicate the road to a future development.¹³ As a natural consequence of it, Boeke's social dualism appears to be a "sharp, deep and wide cleavage" (*een scherpe, diepe en wijde kloof*) between the alien capitalistic system and the indigenous pre-capitalistic. In this context, there will be little doubt that such roles as being played by the economic activities of the overseas Chinese and some indigenous people of middle class are simply regarded by Boeke as the "offshoots"¹⁴ or "organs" in the service for the "imported high capitalism" and not as a conveying economic force for the transition to "early capitalism".¹⁵

Viewed in this way, it is little wonder that Boeke's dualistic theory, according to Burger, is "extraordinarily static" (*overwegend statisch*),¹⁶ as being his theoretical basis in the extreme distinction and the simultaneous co-existence of the two systems, not recognizing the transitional process from the one to the other. As a matter of fact, the policy implications Boeke's theory suggests have proved to be absolutely meaningless for the development possibilities of Indonesian economy, standing simply for the "village restoration" (*dorpsherstel*)¹⁷ in the direction towards the revival of "village democracy" and the strengthening of "communal solidarity", only to protect the village against the "communal disintegration".

Further, Burger severely criticizes Boeke of his ignoring the fact that Indonesian

¹² Burger, op. cit., p. 180.

¹³ Burger, op. cit. p. 197.

¹⁴ Boeke, Economics and Economic Policy, p. 15.

¹⁵ Burger, op. cit., p. 192.

¹⁶ Burger, op. cit., p. 198.

¹⁷ Burger, op. cit. p. 195 For Boeke's own views on "communal disintegration" and his own policy proposal for "village restoration", see the following two articles: "Three Forms of Disintegration in Dual Societies," *Indonesië*, 7e. jg. April 1954 pp. 287-290; "Western Influence on the Growth of Eastern Population." *Economia Internazionale*, Vol. VII, No. 2, May 1954, pp. 367-368.

economic society has already been passing gradually from self-sufficient village economy to exchange economy based upon labor and capital.¹⁸ Stated another way, structural changes have been taking place in the Indonesian society and economy through the processes of "individualisering, verzakelijking en vercommercialisering"¹⁹ (individualization, materialization and commercialization.) And Burger strongly advocates his following scheme²⁰ of "vier-deling" (four-division) in place of "Boeke's "twee-deling" (two-division), so far as Boeke does not close his eyes to the reality of Indonesian economy.

SCHEMA

| <i>Volgens Boeke</i> | <i>Volgens Burger</i> |
|---|--|
| "Voor-kapitalisme" =zelfgenoegzame dorpseconomie | Groep I—Zelfgenoegzame gezinbedrijven =Zelfgenoegzame dorpseconomie |
| ———— | Groep II A—Gezinbedrijven met verkeer op arbeidsbasis |
| ———— | Groep II B—Gezinbedrijven met verkeer op Kapitaalbasis |
| "Hoog-kapitalisme" =Westers grootbedrijf | Groep III—Naamloze vennootschappen =Westers grootbedrijf |

Against Burger's criticisms mentioned above, Boeke made an immediate reply to Burger in the following way.²¹ First, Burger is, according to Boeke, endeavoring in vain to force my dualistic theory into the Sombart's framework of modern capitalism. But, though I was indebted to Sombart's theory, I have at present gone ahead from Sombart to propose a new theory of my own. Consequently, in the second place, it is "a serious misunderstanding" (*een ernstige mistekening*) and "a prejudice" to criticize my theory from the criterion based upon the Sombart's standpoint, devising an "extremely naïv"²² (*alleronnoezelst*) scheme of four-division. It is worth noting specifically that Sombart's theory is primarily based upon the assumption of the homogeneity of western society. It does not seem at all accidental that Sombart attaches specific significance to the town-*Handwerk*. I had no intention from the outset to apply Sombart's theory as it was to the dualistic society of entirely heterogeneous structure.

Third, Burger does not understand the true concept of "social-system", because he is inclined to "under-estimate" (*onderschatten*) "a revolutionary deed" (*een revolutionaire*

¹⁸ Burger, op, cit., p. 195.

¹⁹ Burger, op, cit, p. 194. See Burger's following articles which dealt historically in more detail with the process of structural changes of Indonesian economy and society: *Structural Changes in Javanese Society: The Village Sphere*. Translation Series, Modern Indonesia Project, Southeast Asia Program, Dept. of Far Eastern Studies Cornell University, Ithaca 1957, 17 pp. *Structural Changes in Javanese Society: The Supra-Village Sphere*. Ithaca 1956, 38 pp. (Articles which originally appeared in *Indonesië*, translated by Leslie H. Palmier).

For the important articles which are closely connected with the controversy between Burger and Boeke, see Burger, "Over de Economische Structuur van Indonesië," *Indonesië*, 7e jg. Nr. 1, Juli 1953. pp. 1-24.; "De Betekenis van de Cooperaties voor Indonesië." *Indonesië*. 7e jg. Nr. 2, October 1953. pp. 122-131.

²⁰ Burger, Boeke's Dualisme", p. 183.

²¹ Boeke, "Rechtzetting", *Indonesië*, 7e jg. Nr. 4, April 1954, pp. 273-277.

²² Boeke, op. cit, p. 273.

daad) which makes the transition possible from one system to the next, "which, if it occurs collectively, brings with it a forcible overthrow of the social system, and which, individually in any case, means that one feels oneself a heretic, and enemy of the existing order, and antagonist of the social milieu."²³ In this sense, within the indigenous agrarian community in the dualistic society we are not able to recognize any new phases in terms of a revolutionary change with regard to social spirit, organizational forms and technique, in spite of the various influences from the alien capitalism. Thus Boeke insists that there must be "a difference in principle"²⁴ (*een principiële onderscheid*) between the pre-capitalistic system and the capitalistic as well as between the late-pre-capitalism and the early-capitalism.

To this rather provocative response of Boeke, Burger persistently sticks to his firm standpoint and made refutations that his interpretation of Boeke is not of such a kind of "prejudice" or "a misunderstanding" as Boeke pretended, and that Boeke's theoretical basis of "system" concept is actually nothing but that of Sombart. And Burger firmly advocates his scheme of four-division as the most adequate one for the explanation of the structural changes in Indonesian society, protesting severely against Boeke's provoking tone.²⁵ The controversy between Boeke and Burger, however, come to an end without producing any fruitful result from it, owing to no further response on the part of Boeke.

2. Professor Benjamin Higgins, a theoretical economist, tried to criticize Boeke's dualistic theory from another viewpoint,²⁶ not from the methodological aspect with which Burger mainly concerned.

First, emphasis is being put by Higgins on the examination of the assumption on which Boeke's theory based. While Boeke attaches greatest importance on the "limited wants", "absence of profit-seeking" and "social wants or needs" in the pre-capitalistic society, Higgins regards them as "a matter of more or less degree"²⁷ and not as a matter of intrinsic nature. As a matter of fact, Higgins does not see any evidence that the degree of mobility of oriental labor in response to income incentive is much less than western labor. On the contrary, "wants of the (Indonesian) villagers, far from being limited, are so many and varied that any 'windfall'.....is quickly spent on imported semi-luxuries" as seen among *dajak* people who are living "far up the great rivers of Kalimantan²⁸ (Borneo)"

Second, Boeke too much "exaggerates" the sharp contrast and the simultaneous co-existence of the two heterogeneous social systems. "Rather, the contrast between the advanced and underdeveloped sectors appears to be less sharp than Boeke contends, and to be diminishing. Nor can I see that such dualism is specifically eastern."²⁹ Such a phenomenon of dualism can be seen even in the West, and "it seems more realistic to rank countries on a more or less continuous scale of homogeneity"³⁰

²³ Boeke, op. cit., p. 275.

²⁴ Boeke, op. cit., p. 274.

²⁵ Burger, "Boeke's 'Rechtzetting'", *Indonesië*, 7e. jg. Nr. 5, Juli 1954 pp. 375-380.

²⁶ Benjamin Higgins, "The Dualistic Theory of Underdeveloped Areas", *Economic Development and Cultural Change*, Vol. IV No. 2, January 1956 pp. 99-115 (This is abridged version of the same title which appeared in *Ekonomi dan Keuangan Indonesia*, Tahun Ke VIII, No. 2 Pebruari 1955, pp. 58-78. And the most recent view of Higgins can be seen in his great work: *Economic Development: Principles, Problems, and Policies*, N. Y. 1959. pp. 274-293.)

²⁷ Higgins, op. cit., p. 106-107.

²⁸ Higgins, op. cit., p-107

²⁹ Higgins, op. cit., p-107

³⁰ Higgins, op. cit., p-106

Third, Higgins does not attach much significance upon Boeke's "system" concept. And he asserts that the obstacles to the economic development in the underdeveloped countries are to be the backwardness of the social and cultural institutions³¹ which, however, are changeable rather than unchangeable, while stressing "the interrelationship between factor endowment and techniques of production" as "the chief cause of the dualism of underdeveloped areas."³² Higgins argues that the problem can be solved through "a large-scale capital investment" which "should be accompanied by improvements in techniques that are labor-absorbing rather than labor-saving". According to Higgins, "the basis of 'dualism' is not essentially social, but economic and technical".³³ Thus, he concludes that "Dr. Boeke's insistence on 'slow' evolution through 'village restoration' is defeatist, and indeed dangerous, because it is precisely slow evolution that cannot succeed in the face of all the obstacles."³⁴ Thus he goes so far as to suggest that the right road to solution can be found solely in a "shock treatment"³⁵ through the economic and technical assistance on a large scale, which might "turn the present large-scale disguised unemployment into asset."

Fourth, Higgins does not feel the need for a distinctive economic and social theory for a dualistic society as Boeke attempts. And he firmly believes that "familiar tools" of theoretical economics which are valid for western society would usefully be applicable for the analysis and explanation of the dualistic phenomenon in oriental society. (For example, Higgins advocates the marginal productivity theory³⁶ against which Boeke severely attacked).

Unfortunately, we are not in a position to know Boeke's reaction to Higgins' criticism stated above, though Higgins' article appeared after some extensive comments by Boeke on an earlier draft of it. Presumably, it seems to me that Boeke who has been devoted his whole life to establishing and developing a new theory of dualistic society since 1910 must have felt too much difference of view to make reply to Higgins.

IV. *The Writer's Comments and Implications for the Theory of Economic Development in Underdeveloped Countries*

It is the writer's belief that the Boeke's theory should be criticized in various aspects, but that the crucial problems tackled by Boeke should not be neglected in any development of the theory which will be able to deal successfully with the basic problems of economic development in underdeveloped countries. The writer would like to raise the following four points as his own comments and criticisms on the Boeke's theory and the controversy related to it, for the purpose of developing the new theory on the basis of socio-economic approach.

³¹ For his detailed analysis of economic, political, sociological and technological factors influencing economic development, see Higgins, "Economic Development of Underdeveloped Areas: Past and Present," *Land Economics*, Vol. XXXI, No. 3, August 1956, pp. 179-195.

³² Higgins. "The Dualistic Theory" p. 112.

³³ Higgins, op. cit, p. 114

³⁴ Higgins, op. cit. p. 114

³⁵ Higgins, op. cit, p. 114

³⁶ Higgins, op. cit, p. 109

The first is related to a problem concerned with the "system" suggested by Dr. Boeke.

Boeke's concept of "system" originated with Werner Sombart. It is, however, by no means identical with Sombart's concept of "system," as was made clear by the controversy between Boeke and Burger. Sombart's concept of "system" is a conceptual tool by which to grasp typical features of the socio-economic development of modern capitalism in Western society, which is considered to be more or less homogeneous. For Boeke, however, it is a conceptual tool to make clear the non-harmonious nature in the process of contact and clash between the modern Western society and the indigenous Oriental society; i.e., to clarify the heterogeneous dual structure and the "simultaneous" co-existence of the indigenous and the alien systems. Boeke stressed the fact that the "imported capitalism" is nothing but an addition from outside and never the product of the indigenous society from within, and thus it remains as heterogeneous. In order to absorb it into society, "revolutionary changes" in "spirit," "organization" and "technique" inside the indigenous society are required. It is to be noted that Boeke himself does not deny that various changes in the indigenous social system have occurred through the contact with the alien capitalistic system. Nevertheless, these changes do not amount to the transitional change from one system to the other. According to Boeke, a "social dualism" does exist as "an irretrievable fact"³⁷ in spite of these changes.

It seems, therefore, not appropriate to characterize what is called by Boeke dualism by such expressions as "*Heterogeniteit*," "*Differentiatie*" or "*Verscheidenheid*"³⁸ (such as done by Burger); or to substitute the concept of "sectoral differences" or "differences in the institutional framework"³⁹ (as done by Higgins) for that of the dual society.

Although I would not agree with the Boeke's theory as it is, I would think it necessary to emphasize the following one point in Boeke's discussion for the purpose of doing away with unnecessary misunderstandings about it: his concept of "system" has, according to my understanding, been formulated along the line with the method of Max Weber's "*Idealtypische Begriffsbildung*"⁴⁰ which, although it does exaggerate reality in a one-sided way, (*Einseitige Steigerung*) would still be extremely useful as a "heuristic means" (*heuristisches Mittel*) for understanding reality in underdeveloped areas. Boeke himself should have emphasized this point. As far as I understand his theory in this line, I shall be in a position to appreciate in considerable degree his theory of dual society.

The second point is about the problem of "structural changes." The concept of

³⁷ Boeke, "There Forms of Disintegration," p. 289.

³⁸ Burger, "Boeke's Dualisme," p. 198.

³⁹ Higgins, "The 'Dualistic Theory' of Underdeveloped Areas," pp. 107, 111; Also Higgins, *Economic Development: Principles, Problems and Policies*. Part IV, Chap. 12, Sociological Dualism, pp. 288, 293.

Ganguli, an Indian economist, also criticized Boeke's dualism, arguing that "the assumption that Western society patterned on the basis of high capitalism as homogeneous is unrealistic. Western economic theory can no longer be based on this assumption. One may concede that Eastern societies are less homogeneous than Western societies. The difference, however, is largely a matter of degree of homogeneity or lack of it." Thus, he insists upon the necessity of development of the "unified value theory" in the context of "group dynamics" based upon the assumption of "non-competing groups." See B. N. Ganguli, "Rethinking on Indian Economics," Presidential Address to the 38th Annual Conference of the Indian Economic Association. Poona, December 1955. pp. 36-38.

⁴⁰ Max Weber, *Gesammelte Aufsätze zur Wissenschaftslehre*, Tübingen, 1922. (*Max Weber on the Methodology of the Social Sciences*, Translated and edited by E. A. Shils and H. A. Finch, Free Press, Glencoe, Ill. 1949).

"structural changes" stated here, does not simply mean that of "growth" or "gradual evolution," but it must be understood as connected with a concept of "transitional period" which includes some elements of qualitative changes. Boeke's concept of "dual society" is characterized by admitting no transitional process from one system to the other, so that it can by no means deal with the problem of structural changes. The theory of "system" is neither the theory of "*Stufentheorie*" (Stage-theory) nor the dynamic theory; it is in itself a static theory. Here, we find a limit of Boeke's theory, with which the critics are discontented. On the other hand, it would also be wrong to undervalue the problem of "transition," and thus to misjudge the significance of "revolutional changes" inherent in the concept of transition as is done by his critics.

Before dealing with this problem, I would like to draw the reader's attention to the problem: why there has never been "transitional process" from one system to the other in the "dual society", in other words. What is the reason for the fact that in the same society no transition has occurred from "pre-capitalism" to "early capitalism."⁴¹ It will be nothing but *petitio principii* to solve this problem by applying such concepts as "limited wants" and "absence of profit-seeking" in the pre-capitalistic society. The causes are deep-rooted.

Now, what does the capitalistic system in the "dual society" mean? In my judgement, it is not only "an imported capitalism" but "an imported colonial capitalism." Colonial capitalism, being as it is, appears as a phenomenon where the unusual activities of the economic forces unleashed from the control of a "common social will", are predominantly prevailing. In other words, absolute materialism and complete individualism appear in their most plain forms in the context of a reckless profit-seeking in all aspects of economic life. Moreover, it should be noted that the large capital which has developed capitalism in the colonies is not only capital in a purely economic sense, but also revealed itself as capital backed up by the political power of colonial government. "Colonial capital" in this sense has become "monopoly capital" in the basic field of industrial life and economic activities of the "dual society."

Stated another way, politically and economically "disequalizing factors"⁴² brought about by the colonial capitalism have frustrated the active will of the inhabitants of the indigenous society so that the self-sufficient peasants as well as unskilled laborers had to be kept in the "fossilized" stagnant state.

The problem of colonial exploitation is not merely a matter of income distribution but, fundamentally speaking, that of economic opportunities which are denied to the

⁴¹ We had a controversy between Boeke and Furnivall as to whether the economic activities of the Chinese and Arabs in Indonesian society could be regarded as a forthcoming phenomenon of "early capitalism" or not. Boeke contends that the economic functions of so-called "foreign Asiatics" are nothing but the "offshoots" or "organs" of Western "high capitalism," playing the role of simply sharpening the dualistic social system. (Boeke, *Economics and Economic Policy*, p. 15). On the contrary, Furnivall puts a specific significance on their economic functions as middlemen acting as a role of a bridge between "pre-capitalism" and "high capitalism," i.e., a forerunner of "early capitalism" (F. S. Furnivall, *Netherlands India: A Study of Plural Economy*, Cambridge 1939, pp. 452-464.)

⁴² Among those who are attaching specific importance internally and internationally, on the "disequalizing factors" in the backward countries, the works done by H. Myint and G. Myrdal should be referred to. See H. Myint, "An Interpretation of Economic Backwardness" *Oxford Economic Papers*, New Series, Vol. IV, No. 2, June 1954, p. 14; "The Gains from International Trade and the Backward Countries," *Review of Economic Studies*, 1954/55, No. 58, pp. 129-142. G. Myrdal, *Economic Theory and Under-developed Regions*, London, 1957, p. 51.

native society by the function of "unequalizing factors." If we look this fact face to face, we would realize as a severe fact the simultaneous coexistence of capitalism and pre-capitalism; that is, the difficulties of transitional process from the one system to the other.

It is my view in this respect that Dr. Boeke should have emphasized this point to put his theory of dual society on a firm basis. But he has avoided deliberately to use the concept of "colonialism" and thus has failed to make clear the dualistic character of Indonesian society. The Dutch type of colonial government is that of so-called "*rust en orde*" (peace and order) which is characterized by the policy of protecting with patriarchal attitudes the indigenous society from influences and impact from the outside through the "rule of custom".⁴³ As results of these policies, the sharp contrast of Indonesian dual society has been more and more increased and thus the "transitional process"—the process of integration—has been strictly prevented. Despite the aforementioned pressure from colonial capitalism, as Clifford Geertz has attempted to testify by field research survey of Javanese society, social and cultural group such as *Santri* or *Prijaji*⁴⁴ have arisen as a carrier of "early capitalism". Nevertheless, this socio-economic force has never grown up to a powerful promoter which could convert the indigenous society to capitalistic society.

⁴³ A comparative study of the Dutch pattern of colonial government ("*rust en orde*") and the British pattern of "law and order" will be essentially useful for the understanding of the different nature and characteristics of dual societies of the colonies concerned. See my work in Japanese, SEKAI-KEIZAI-RON (*World Politics and World Economics*) Tokyo 1951 (Chap. IV, Patterns and Transformations of the French, Dutch, British, and American Colonial Policies: A Comparative Study.) pp. 200-250.

See also critical remarks made by Higgins and Geertz on the anti-developmental character of Dutch "ethical policy." Higgins: *Economic Development*. Part IV, Chap. 12, p. 280; Higgins, "Western Enterprise and the Economic Development of Southeast Asia: Review-Article," *Pacific Affairs*, March 1958, pp. 77, 80, 83, Geertz, *The Social Context of Economic Change; An Indonesian Case Study*, unpublished mimeograph, July 1956. p. 42, "...The Dutch colonial system in Java as humane policies in defense of native welfare in the face of capitalism exploitation...But I think...their welfare effects to be in any case rather short-run ones. While their longer run effects are (or were) to maintain...the status quo: Western capitalist enterprise with Eastern pre-capitalist land and labor, the latter largely enclosed in a traditional structure."

⁴⁴ Clifford Geertz, "Religious Belief and Economic Behavior in a Central Javanese Town: Some Preliminary Considerations," *Economic Development and Cultural Change*, Vol. IV, No. 2, January 1956, pp. 134-158; Geertz has made an interesting attempt to find out and demonstrate the general relationship between the religious ethic and economic activity postulated by Max Weber's *Religionssoziologie* in a Central Javanese town called "Modjokuto" (a pseudonymous name), through field work from May 1953 until September 1954, under the sponsorship of the Center for International Studies, M. I. T.

From this viewpoint, he classified three main cultural groups, *Abangan*, *santri* and *prijaji*. According to Geertz, the *Abangan* group whose religious belief in the orthodox Islam blended with local animism, Buddhism and Hinduism has been engaging mainly in self-sufficient agriculture. The *santri* group "largely comprised of rather pious, self-conscious, aggressive, and often religiously quite sophisticated Islamic modernists influenced by reformist ideologies streaming out of the great centers of learning in the Middle East," has been engaging mainly in commerce and trade, adapting themselves to economic rationalism to a certain extent. The *prijaji*, "religiously have been concerned with a search for ultimate mystical enlightenment, with elaborate philosophical and mythological speculation upon the nature of man and the basis of his spiritual life and moral exhortation," rather than interested in either *slametan* (*abangan*) or the Quran (*santri*), Their social status is much higher than *abangan* and *santri*, because of their coming from a noble class with varied titles. Retaining hereditary privileges utilized by Dutch colonial government, they had established "their economic base almost entirely in the governmental bureaucracy" and have been occupying most of the important positions as managerial staff in the governmental enterprises and corporations since the post-war period. Thus the *prijaji* have been emerging mainly in industrial sectors, while the *abangan* in agriculture and the *santri* in trade and commerce. Geertz's success in finding out the relationship between the religious belief and economic behavior in Javanese society should highly be appreciated as one of fruitful results of socio-economic approach.

In other words, developing factors which were emerging inside the indigenous society have been frustrated by the "self-defeating Dutch policy"⁴⁶ combined with the economic pressures from colonial capitalists and "foreign Asiatics" (Overseas Chinese). Here, we realize the difficulties in dealing with the problem of "structural change" of "dual society" or that of the initial stage of the society to transition. Therefore, as far as the problem of "transition" is concerned, we cannot support the theoretical value of Boeke's theory unless we reinterpret critically his dualistic theory in the context of "colonial capitalism."

The third is about the problem of "policy implications." Boeke suggested three possible courses of policy to eliminate a dualism of the society."⁴⁶ The first might be called the "Gandhian way," a return to the precapitalistic indigenous society, parting from the alien capitalism. The second is the way which introduces the whole society into "Integral Capitalism" along the line of the modern Western way. The third is the way which might introduce the society to the Soviet system of "Communism". Out of these three ways, the first has failed in India, the second has less possibility, and Boeke does not deal with the last. After all, Boeke admits a semi-permanent existence of dual society in Indonesia, "permanent at least within a measureable distance of time." And, politically, he proposes only a "constructive rural welfare policy" which is supposed to strengthen "communal solidarity" for the purpose of preventing "communal disintegration." Boeke's concept of "constructive rural welfare policy" has not been developed in a more detailed way. He is skeptical about the promotion of village "cooperatives" or "community development projects," because they would necessarily involve "individualizing factors" which would be harmful and even dangerous to the "communal solidarity." There seems to be ample reason why his ideas of "village restoration" on the basis of "rural welfare policy" have been criticized by Professor Higgins as merely "back-to-the-village" policy.⁴⁷

Boeke is defeated by his own theory and shows himself as incompetent in policy-making.

Now, we have to get some policy consequences that are different from Boeke's by critically adopting the essence of his theory of dualism. As I suggested in the discussions of the second problem, the sharp contrast and stagnant backwardness in the dual society has been intrinsically due to *colonial capitalism*.

I feel it difficult to agree with Professor Higgins' remarks in criticizing Boeke that⁴⁸

⁴⁶ Geertz, *The Social Context*, pp. 22, 40, 41, 42, 44, 49. This article is summarized in "The Impact of Capital-Intensive Agriculture on Peasant Social Structure: A Case Study." M. I. T. June 1956, pp. 3, 9, 11-17.

"There grew up something of a larger landholders' class, made up of village chiefs and other well-to-do peasants." (*The Social Context*, p. 34); But "...the creative elements were smothered by clonial policies in the name of moderating the destructive elements." ("The Impact," p. 3.) "By attempting to control the processes of production all the way down to the raw material level, the plantations hindered the development of a class of independent agricultural entrepreneurs with a predominantly "developmental" rather than a "circular flow" orientation (*The Social Context*, p. 41); "There are a few fairly developed stores owned by Javanese," but their volume and range of activities, in the face of Chinese competition and a shortage of capital, is not great. In general, we can say that the Javanese sector of "Modjokuto" business life is centered on *intra-local* trade, the Chinese around *inter-local*. (op. cit., p. 22.)

⁴⁶ Boeke, "Three Forms of Disintegration," pp. 287-290, 293.

⁴⁷ Higgins, "The 'Dualistic Theory' of Underdeveloped Areas," p. 113.

⁴⁸ Higgins, *op. cit.*, p. 114. For Higgins' comments on the theories of Myint and Myrdal, see Higgins, "A Theory of Underdevelopment: Implications for Community Development Policy, M. I. T.. Unpublished mimeo., December 1957, pp. 30-44.

"the basis of dualism is not *essentially* social, but economic and technical." It seems to me that the basis of dual society is "essentially" *colonial-social*. The very colonial capitalism has caused the "unequalizing factors" (Myint) and "backwash effects" (Myrdal)⁴⁹ which will hinder further development of the indigenous economic society, not only internally but also internationally. Hence, we have to have some kinds of politico-economic means which eliminate or "countervail" these "unequalizing factors" "in order to break the stagnation and the backwardness in the indigenous society.

Most of the countries in South-east Asia have attained political independence and became independent sovereign nations since World War II. But they have not yet been able to free themselves from the colonial-social structure and economic subordination in the international economic relations.

They are still troubled with the "unequalizing factors" such as monopolistic domination by foreign enterprises and firms, intermediary exploitation by "foreign" Asiatics (Overseas Chinese and Indians) and extreme dependency on world market and instability caused by the price fluctuations for their monocultural primary products.

There would seem to be no countervailing measures to these "unequalizing factors" except "economic nationalism."⁵⁰

Today, (1) "nationalization" policies which most South-east Asian countries adopt or are going to adopt, at least in some forms and extent are the liberation from monopolistic domination by foreign enterprises or firms; (2) "land reform" and promotion of "cooperatives" are aiming at liberation from parasitic exploitation by "foreign Asiatics" who are acting as money lenders and middlemen; and (3) the policies of "industrialization" and "economic protectionism" symbolize the efforts to exclude the "unequalizing factors" from their international economic relations, aiming at developing "a balanced and diversified national economy." Thus, the motive force which promotes the structural change towards the integration of dual society should be found in these indications of "economic nationalism." Needless to say, however, there still remains a question of how rationally to organize this economic nationalism as effective countermeasures, not only on the internal, but also on the international level, which are consistent with the postulates of stabilization and development in these countries.

The role of the state is extremely important as an initial motive force in eliminating the "unequalizing factors" to integrate the "dual society" and in promoting the structural change of its society. But even though the state is successful in organizing economic nationalism, which is the necessary structural framework for changing dual society, it would still remain fruitless, unless some new social force⁵¹ rises up within a framework

⁴⁹ Myrdal, *Economic Theory and Under-developed Regions*. London 1957, p. 51. This new term has been adopted in this book for the old one of "Backsetting Effects" as appeared in *Development and Under-development: A Note on the Mechanism of National and International Economic Inequality*. Cairo. 1956.

⁵⁰ Professor Rostow attempts to demonstrate through historical evidence the relation between five stages of economic growth and the various directions of nationalism. And he admits to the factor of nationalism the important role "for completing the Preconditions and launching the Take-Off" in saying that "nationalism has been, on the whole, a more important force in creating unified national markets and modern economies than the profit motive." Rostow, "Stages of Growth and Aggression, Unpubl. mimeo., June 1958, p. 14.

⁵¹ In view of this point, the work done by Professor Hagen should be highly appreciated. Everett E. Hagen, *An Analytical Model of the Transition to Economic Growth*, Unpubl. mimeo. C.I.S. M.I.T. July 1957.

set by the state. Here, the question still remains unsolved whether it is possible for whatever elements of the indigenous society to become a new social force that bears the responsibility for actual economic development, in response to the impact from above. In this respect, we will face a problem of entrepreneurship, the clarification of which has to a great extent been made by Geertz in his field studies conducted on Javanese society.

A research program must be established for examining the patterns, scale and tempo of the prospective entrepreneurship⁵² as a new social force within the society, against the historical background and on the social basis of the Southeast Asian countries respectively. It is at the same time important to look into the problem of what extent "a revolutionary change" is emerging from "traditionalism" to "rationalism" in the spheres of "spirit", "organization" and "technique"; and from "communalism" to "individualism", in the society as a whole. In this particular case, the problem of the "transition" of the society is equivalent to that of developing "Integral Capitalism", named by Boeke. However, there might be another possible direction of the "transition" of the society, namely to Communism. As Boeke suggested, it is not simply restricted to the way toward "Integral Capitalism." There is a possibility of transition from "communalism" to "collectivism" and from "traditionalism" to "superrationalism", depending on the class structure and power structure that are emerging in the society. As far as the reality of the Southeast Asian countries is concerned, it might be said that the possibility of transition to Communism or Socialism as its first step is much greater from the point of view of the transition of the society. And the sharper the contrast or tension within the structure of the dual society, the larger this possibility would be.

The fourth problem involved in the criticisms and controversies on Boeke's theory is that of the unification of theory and policy concerning economic development in underdeveloped countries; i.e., the unification of the economic and the sociological approaches.

Boeke has failed to indicate appropriate policy implications based upon his theory. As for the distinct theory of interaction between the indigenous social system and the alien social system in dual society which he attempted to develop, it might not be exaggerating too much to say that what he has done was only "a description of Eastern society, and demonstration that it lacks those features of Western society which have resulted in the economic and social development of the West,"⁵³ as Professor Higgins criticized it. It can be easier said than done to establish a new theory of economic development in dual societies on the basis of the unification of the economic and the sociological approaches. To fulfill the final task aforementioned, a new method of a certain kind of "structural-functional" analysis should be established, which, however, remains not yet attained.

In this connection, it is the writer's belief that it may be well to reiterate the points made at the latter part of this paper. In short, accepting the difficult and complicated problems involved in establishing the initial stage of a "revolutional change" in dual society, it would seem to be, nevertheless, useful to suggest here first that special attention

⁵² Van der Kroef has pointed out "the parasitic function" of the *prijaji* who have arisen as dominant entrepreneurs in the Javanese society of today, denying that they are prepared with the spirit of economic rationalism. And also he pointed out that the enlargement of the economic activities and the strengthening of economic control of the state tend to spoil the active will of the private entrepreneurs. Van der Kroef, J. M., "Economic Development in Indonesia: Some Social and Cultural Impediments," *Economic Development and Cultural Change*, Vol. IV, January 1956, pp. 125-131.

⁵³ Higgins, *op. cit.*, p. 111.

should be focused on the nature of the by-products of the former colonial capitalism which are nothing but "unequalizing factors," internally and internationally, that will cause the economic instability and social backwardness in Southeast Asian countries. On the basis of this structural analysis, the dynamic aspect of the problem of "structural changes" should be analyzed in the context of establishing the initial conditions for the economic development and also of how to organize rationally "economic nationalism" as a counter-vailing power to "unequalizing factors."