

Subject	ECONOMICS
Paper No and Title	12: ECONOMICS OF GROWTH AND DEVELOPMENT- I
Module No and Title	37: THEORY OF DUALISM
Module Tag	ECO_P12_M37

Principal Investigator	Co- Principal Investigator	Co- Principal Investigator	Co- Principal Investigator and Technical Coordinator
Prof H C Pokhriyal Executive Director School of Open Learning University of Delhi Delhi-110007	Dr Jaswinder Singh Principal SGTB Khalsa College University of Delhi Delhi-110007	Dr Jatinder Bir Singh Principal Sri Guru Gobind Singh College of Commerce University of Delhi	Dr Vimal Rarh Deputy Director, Centre for e-Learning and Assistant Professor, Department of Chemistry, SGTB Khalsa College, University of Delhi <i>Specialised in : e-Learning and Educational Technologies</i>
Paper Coordinator	Content Writer		Reviewer
Mr. C. S. Pant Associate Professor Dyal Singh College (Eve.) University of Delhi	Ms. Artika Vats Assistant Professor Maitreyi College University of Delhi Mr. Amulya Sahoo Assistant Professor Shyama Prasad Mukherji College University of Delhi		Prof. I.C. Awasthi Professor Giri Institute of Development Studies Lucknow
Anchor Institute : SGTB Khalsa College, University of Delhi			

TABLE OF CONTENTS

1. Learning Outcomes
2. Introduction
3. Social Dualism
4. Technological Dualism
5. Lewis Model of Unlimited Supply of Labour
6. Fei-Ranis (FR) Model of Dual Economy
7. Nurkse's Model of Dualism
8. Financial Dualism
9. Summary

**Pathshala**
पाठशाला
A Gateway to All Post Graduate Courses

1. Learning Outcomes

After studying this module, you shall be able to -

- Know about the concept of dualism
- Understand the social, technological and financial dualism
- Learn about the Lewis model of Unlimited Supply of Labour
- Know about the features of Fei-Ranis (FR) Model of Dual Economy
- Learn the Nurkse's model of dual economy

2. Introduction

The one way to analyze the reasons of underdevelopment in different countries can be systematically analyzed by integrating the orthodox and social economic theory, as it exists in western advanced countries. The other way to explain the underdevelopment is to apply the distinctive theory of development which applicable to only underdeveloped countries basically Asian and African countries. The “theory of dualism” is an explanation of underdevelopment in Asian countries. A concept of “DUALISM” in economic development was originally coined by Julius Herman Boeke in 1953 to explain the reasons of underdevelopment in the societies exist in mostly Asian and African countries. “Dualistic” theory of J.Boeke in 1953 has special interest and importance because of years of his reflection as Eastern economists. While his theory is based on study of Indonesian experience but it has huge application to other similar societies like India where Dualistic society exist. According to him the most countries of Asian and African continent are underdeveloped or less developed due to the existence of dual society. Underdeveloped countries of today are characterized by a dualistic economic structure a modern monetary economy existing side by side with a traditional primitive economy. In recent decades economists have paid increasing attention to this “dualism” and vast literature on a number of problems related to it has arisen. The questions that have been examined in considerable length include questions relating to the nature, features, and implications of dualism. The theory of **social dualism** as propounded by J.H.Boeke and the theory of **technological dualism** as advocated by Benjamin Higgins. As a result of dual economy where two different sectors exist simultaneously. Theories propounded by Lewis in 1954 and John C.H.Fei and Gustav Ranis in 1964 also come under dualism but their dualism divided the economy into two sectors. They separated the economy of an underdeveloped nation into two sectors-the capitalist sector and the subsistence sector.

3. Social Dualism

In Boeke's terminology, "eastern" and "dualistic" are synonymous terms. This is on account of the fact that "eastern" lands possess all the characteristics of a dual society. They are typically pre-capitalistic but at the same time have come into contact with "west". However, though the "west" has penetrated these lands it has been able to absorb them culturally and socially. Both east and west represents a definite culture, a definite philosophy of life, but culture and philosophies of life that have clashed without blending. Thus "eastern" economies are the same as "dualistic" economies.

The important features of dualistic economy are as follows:

Overriding importance of social needs which said that the relatively greater importance of social needs as compared to western economies. As contrasted with western society, human needs are very much limited in eastern societies. Because of limited human needs, economic motivation to produce more either does not exist in the eastern society or is very weak, which in turn leads to a low level of economic activity. In this society the supply curve is sloping backward. The eastern society has family as the unit and individual self-sufficiency is the dominate idea. People are not easily induced to organize production or to collective investment. The idea of income does not fit in an eastern society. Income is a thing that a man gets more or less regularly from outside as a result of acts of exchange usually in the shape of money. In eastern society, the results of cultivating food crops grown for the maintenance of the household cannot be termed "income" in the strict sense. Whereas agriculture is the basis of life in an eastern society, industry is merely supplementary. He also pointed out that there are five type of unemployment problem exist in underdeveloped countries those are –seasonal unemployment, unemployment of casual workers, unemployment of regular labourers, unemployment of urban white collar workers, and unemployment among Eurasians'. Due to above character Boeke argued that the under developed countries are should be left by alone by developed countries as there is significant differences between the eastern and western societies. Thus western economic theory is totally inapplicable to the eastern societies.

The social dualistic theory has been criticized by **Professor Benjamin Higgins** on the following grounds:

(i) Wants are not Limited: It has been observed that the desires of people in Indonesia are limited because there the values of MFC and MPM are higher. Therefore, the government of Indonesia has to enforce import restrictions. Moreover, whenever the harvest is good the farmers become wealthy and the demand for expensive (luxurious) goods rises.

(ii) Casual Labor are not Unorganized: Boeke's version that casual workers are disorganized and inactive may be true in case of agricultural sector but they are organized in tea, rubber, coffee and plantation etc.

(iii) Eastern Labor is not Immobile: According to Boeke eastern labor is immobile. It is not so because of attraction of recent and modern facilities of life in the urban areas. Moreover the high income incentives force the labor to move from rural areas to urban areas.

(iv) Dualistic Theory is not particular to Underdeveloped Countries Only: According to Boeke, the eastern society exists in only in underdeveloped economies, which is not true. It does exist in Canada, Italy and even in the United States.

(v) Applicability to Western Society: Professor Higgins observed that a majority of the characteristics of eastern society, as given by Boeke, are present even in the western societies. For example, during hyperinflation, speculation is preferred to investment. This means that the people in the western countries also have a strong desire to keep their capital safe and in liquid form. The western society also believes in conspicuous consumption as discussed by Veblin and Snob effects. The backward bending supply curve of efforts has also been experienced by Australia during post war period and by US in the decade of fifties.

(vi) Not a Theory but a Description: It is challenged that the Boeke's dualistic theory is a mere description of facts rather than being a theory. His findings are based upon neo-classical theory which has the limited applicability in the western world.

(vii) It does not provide any Solution to the Problem of Unemployment: Boeke's dualism focuses more on socio-cultural aspects rather on economic. According to him the government is not in a position to remove unemployment from the economy. Moreover, he did not put forward any remark on the situation of under employment. Therefore his theory is full of shortcomings.

4. Technological Dualism

As a substitute to Boeke's sociological theory of dualism, Benjamin Higgins in 1956 has put forward the theory of **technological dualism**. The theory of **Technological dualism** implies the use of separate production functions in the advanced sector and the traditional sector. According to him traditional rural sector possesses agriculture and handicrafts or very small industries. The technical coefficients of production in this sector are variable so that the products can be produced with wide range of techniques and alternative combinations of labour and capital and the factor endowment is such that labour and

capital and the factor endowment is such that labour is relatively abundant factor of production, so that techniques of production are labour intensive. In contrast, the modern sector comprises of plantations, mines, or large scale industry.

The theory of dualism assumes a bifurcation of economic and social structures of different sectors so that they can be differentiated in terms of organization, level of development, and goal structure. Usually the concept of economic dualism distinguishes between two sectors of economy. Economic and regional dualism is often the result of a social dualism. Economic dualism, most broadly defined, refers to the coexistence of two or more economic systems. In the 18th and early 19th centuries, economic dualism existed in Western Europe as a combination of institutions congruent with preindustrial and industrial society. The “industrial” refers to the application of science and technology rather than tradition to the productive process. It can be argued that a dualistic development is not a specific feature of some individual country, due to the reason that it has been observed in many transition economies experienced at different periods of time in the course of transformation. In this sector, there is very limited degree of technical substitutability of factors so that production is characterized by fixed technical coefficient and the production process are relatively capital intensive.

Higgins claims his concept of technological dualism as more fruitful than the concept of social dualism as announced by Boeke. This is because of its more realistic approach to the problems of the underdeveloped countries. Placing the underdeveloped countries in their world settings Higgins finds that the actual pattern of demand has been such as to bring increasing conflict between the objectives of optimal output and full employment. While demand for exports grew at a higher rate due to rapidly expanding industrial economy basically in Europe, the demand for output of the rural sector grew only at the rate at which the total population increased. But according to the critics, the empirical relevance of the theory of technological dualism is in doubt.

Boeke’s theory of dualism is different from western dualism which states that economic activity in western countries was based on all the powerful economic needs, while the activity in the countries outside western world and colonial countries guided fundamentally by “social needs”. Boeke characterizes a society in the economic sense by the social spirit, the organizational forms and the technique dominating it. According to Boeke, it is not necessary that a society be dominated exclusively by one social system. If one social system does prevail, the society in question is a homogeneous society. When, on the contrary, two social systems appear simultaneously, we have a dual society. Boeke has spelled out a dual society as the one where one of the two prevailing social systems in fact always the most advanced one, will import from abroad and gain from its existence in the new environment without being able to oust or to assimilate the divergent social system that has grown up there, with the result that neither of them becomes general and characteristic for that society as a whole. The 2 sectors have little connection & interdependence and develop each according to its own pattern. The contemporary sector can be considered an economic territory of industrial countries, and its multiple-factor and growth effects will benefit the industrial countries but have little effect on internal

market. Development in dualism concepts is the conquest of traditional sector by concentrating on and expanding the modern sector. In time, it is assumed that the trickledown effects will decrease and eliminate dualism. In this the major problem is that of capital formation because the degree or amount of capital formation determines the scope and speed of expansion of the modern sector. But the original model of Boeke emphasized one single feature of dualism, either behavioral or technological parameter difference between sectors, which produce the single commodity or are characterized by identical demand and demographic parameters. The reason behind the underdevelopment is not due to “economic dualism” rather “social dualism”. According to him the development guided due to social needs rather economic needs. The core of his theory the reasons of underdevelopment in western capitalist societies are not applicable to the Asian and African colonial societies where capitalism lives side by side with a peasant economy which largely ruled by pre capitalistic relationships. According to Boeke’s view the introduction of fracture of capitalism into pre capitalist peasant economy not only unbalanced the equilibrium of the latter economic system, but also congested the gradual development of capitalistic forms comparable to those in the evolution of the western economy. But later scholars adopted and extended a multidimensional approach. Several authors stress the dualism of specific factors which is different from original dualistic theory of Boeke.

Among them “Eckhaus” stress the dualism of specific factors, in his concept of dualism the technological dualism not social dualism causes of under development, according to him technological dualism distinguished between labour and capital intensive sectors in an economy. Another scholar “Gannage” who explained dualism on regional basis, according to him regional dualism as a lack of communications and exchange between regions, create distinctions and different. “Lewis” s concept of economic dualism is rooted in the classical approach of Smith and Ricardo, according to him there is exist a rural subsistence agricultural sector which is a virtually “unlimited supply of labour” that keeps wages low and profit high and advanced industrial sector. The rapid accumulation of capital in industrial sector depends on saving also draw cheap labour from backward rural sector. According to another advocate of dualism “Ranis-Fei” who extended the Lewis model with micro-foundations and reformulated it in a neoclassical fashion by considering the case where unlimited supply of labour is over and the agricultural sector is fully “commercialized”. Commercialization of the traditional sector results in the elimination of dualism.

Professor Higgins has attempted to present how disguised unemployment gradually rises in the rural sector of dualistic society. But the theory has following defects:

(i) **Assumption of Fixed Technical Coefficient:** Higgins wrongly assumes fixed technical coefficient in the industrial sector without any empirical verification.

(ii) Factor Prices do not entirely depend Upon Factor Endowment: This theory indicates how the factor endowment and different production functions result in disguised unemployment. So disguised unemployment is connected with the factor prices. But it has been found out that the factor endowments do not entirely determine the factor prices.

(iii) Ignoring the Institutional Factors: There are many institutional and psychological factors which have been ignored by Higgins in connection with their effect on factor proportion.

(iv) Ignoring the Use of Labor Absorbing Techniques: According to Higgins that industrial sector employs highly capital intensive techniques which are imported. But practically we find that all imported techniques are not labor saving. For example, Japan's agricultural development is not due to capital intensive techniques.

(v) Size and Nature of Disguised Unemployment is not Assessed: Higgins does not clarify the nature of disguised unemployment in the rural sector and excess labor supply in the industrial sector. Moreover, he does not tell about the extent of disguised unemployed due to technological dualism.

But economists like Higgins who propose technological dualism argument differ from Boeke, according to him “dualism is the situation in which development is not due to the reason of lack of effective demand but due to the constraint of natural resource and technology and according to him dualism cannot elapse only diminishing due to the reason that “some degree of dualism exists in virtually every economy. In the advanced economies like USA and Canada ,have areas in which techniques lag behind those of the most advanced sectors, and in which standards of economic and social welfare are correspondingly low. This notion emphasizes the simultaneous presence of both well performing and poorly-performing sectors in an economy, reflecting different stages of their development as the economy evolves. Now the structure and dimension of dualism changes ,the changes from social dualism to structural dualism that is private and public sector exist simultaneously exist in most of the countries and adding to that dynamic sector with stagnant sector also exist.

5. Lewis Model of Unlimited Supply of Labour

The concept of “dual economy” namely of an economy where a modern manufacturing sector and backward mainly agricultural sector co-exist simultaneously. The modern sector is typically an envelope of any “modern industrial” economy which surrounded by a much larger outdated “traditional sector” where mode of production are primitive and orthodox. Dualism is not confined to the production alone, but often reflects differences in “social system, racial and ethnic backgrounds, demographic behavior, consumer

expenditure and consumer savings behavior, and role of domestic and foreign sectors in economic development. A typical dual economy consists of two sectors:

- A small urban –industrial sector of capital intensive which use the modern mode of production with a high division of labour.
- A big rural-agricultural sector which is traditional subsistence sector consists of small-scale agriculture, handicraft and petty trade which have a high degree of labour intensity with low capital intensity and little division of labour.

The major advocates of other dualistic model are Lewis and Ranis –Fei. The Lewis model of economic growth also analyses the process of economic expansion in dual economy as the models of Boeke and Higgins considered. Lewis put forward his views systematically in his article “Economic Development with unlimited Supplies of Labour”. Lewis divides the economy of an underdeveloped country into two sectors-the capitalist sector and subsistence sector. The capitalist sector does not include only manufacturing but also plantations and mines where labour is hired for profit. As Lewis defines it, the capitalist sector may either private or public. The subsistence sector is by difference all that part of the economy which is not using reproducible capital. A fundamental relationship that exists between the two sectors is that when the capitalist sector grows, it draws labor from the subsistence sector. As a consequence of it, output per head of laborers who switch from the subsistence sector to capitalist sector increases. The wages that the growing capitalist sector has to pay to the unskilled labour is determined by what labour earns in the subsistence sector. Wages offered by the capitalist sector will have to be somewhat higher than subsistence earnings in order to compensate labour for the cost of transfer and to induce labour to leave the traditional way of life of the subsistence sector. According to Lewis transfer of labour from the subsistence sector to the capitalist sector will increase total product and share of capitalist’s surplus or profits in the capitalists sector. This will lead to a rise in the level of savings because the capitalists have a higher propensity to save hence reinvestment of profits increases. This pushes up the total product of the economy and more labour from the subsistence sector is attracted to produce this product. Thus on the one hand ,the level of production in the economy increases and on the other more and more people formerly engaged in the subsistence sector get employed in the capitalist sector. This continues as long as there is surplus labour in the subsistence sector.

Although **Lewis two-sector development model** is simple and more or less it is in conformity with the historical growth in the West, but it has following shortcomings and most of its assumptions do not fit in the institutional and economic realities of underdeveloped countries.

Lewis model is based on the assumption that there exists proportionality in the labor transfer and employment creation in contemporary sector and rate of accumulation of capital in the modern sector. The quicker the rate of capital accumulation, the higher the growth rates of the modern sector and faster the rate of new job creation

But if the capitalists reinvest their proceeds in the labor-saving capital equipment rather growing the labor employment (what has been assumed in Lewis model) the jobs will not be created and hence the contemporary sector will not expand. Lewis did not throw any light on the seasonal demand of labor in the traditional agricultural sector. According to Mehra, the demand for labor varies considerably and it reaches its peak during the sowing and harvesting season. Thus during some months of the year the MPL may be above-zero. In such situation, the positive opportunity costs will involve in transferring the labor from agri. sector. As a result, the labor transfer will reduce agricultural output. Lewis model also underestimates the complete impact on the poor economy which faces rapidly growing population, i.e., its effects on agricultural surplus, the share of profit of the capitalist, wage rates and overall employment opportunities. Similarly, Lewis model also assumed that the growth rate in manufacturing sector would be identical to that in agricultural sector. But, if industrial development makes more intensive use of capital than labor in the production, then the movement of labor from agricultural sector to the industry sector will simply create more unemployment.

6. Fei-Ranis (FR) Model of Dual Economy

Another model of dualism that we propose to consider is the model developed by **John C.H. Fei and Gustav Ranis**. They also consider a labour surplus economy and define two sectors –a large primitive agricultural sector co existing with a small but hopefully growing industrial sector. In their dualistic economy model, the agricultural sector is called upon to perform a series of vital functions including the provision of manpower, food and raw materials as well as the savings required to fuel the expansion of the industrial sector. Similarly, the industrial sector must expand in such a way as to absorb the maximum number of agricultural workers with minimum allocation of the economy's scarce savings fund. In this model agriculturists must somehow be induced to seek industrial employment, and industrialists somehow be induced to employ more workers through increases in the stock of capital goods and the adoption of labour using technology. The FR model is considered to be an improvement over Lewis. This model presents a balanced growth of both the sectors of the economy, the most notable thing for the growth of UDCs.

Despite this fact, this model is not also free from criticisms. The major drawbacks of the theory are The FR model is of the view that $MFL = 0$ in the first phase of growth, and the transfer of labor from agri. would not reduce output in the agri. sector in phase I. But the economists like Berry and Soligo are of the view that agri. output in phase I of FR model will not remain constant and may fell under different systems of

land tenure, i.e., the peasant proprietorship and share cropping etc. The FR model concentrated upon land and labor as the determinants of output, ignoring the role of capital. But Profs. Brown, Byres, Frankel, Griffen, Ghatak and Ingersent are of the view that in the UDCs there has occurred what is known as 'Green Revolution' in agriculture. which has promoted the greater use of capital and technology on lands. Consequently, there has been a greater increase in the agri. productivity and agri. incomes. FR model ignored the role of foreign trade as it assumed a closed economy model. In the 2nd phase when agri. product decreases the TOT goes against industrial sector. This would occur in the presence of closed economy. But if the model is made open such would not happen as the goods could be imported in the presence of then-scarcity. This was especially observed in case of Japan which imported cheap farm products to improve her TOT i.e terms of trade.

Another model of dualism that we propose to consider is the model developed by **John C.H. Fei and Gustav Ranis**. They also consider a labour surplus economy and define two sectors –a large primitive agricultural sector co existing with a small but hopefully growing industrial sector. In their dualistic economy model, the agricultural sector is called upon to perform a series of vital functions including the provision of manpower, food and raw materials as well as the savings required to fuel the expansion of the industrial sector. Similarly, the industrial sector must expand in such a way as to absorb the maximum number of agricultural workers with minimum allocation of the economy's scarce savings fund. In this model agriculturists must somehow be induced to seek industrial employment, and industrialists somehow be induced to employ more workers through increases in the stock of capital goods and the adoption of labour using technology. The FR model is considered to be an improvement over Lewis. This model presents a balanced growth of both the sectors of the economy, the most notable thing for the growth of UDCs.

Despite this fact, this model is not also free from criticisms. The major drawbacks of the theory are The FR model is of the view that $MFL = 0$ in the first phase of growth, and the transfer of labor from agri. would not reduce output in the agri. sector in phase I. But the economists like Berry and Soligo are of the view that agri. output in phase I of FR model will not remain constant and may fell under different systems of land tenure, i.e., the peasant proprietorship and share cropping etc. The FR model concentrated upon land and labor as the determinants of output, ignoring the role of capital. But Profs. Brown, Byres, Frankel, Griffen, Ghatak and Ingersent are of the view that in the UDCs there has occurred what is known as 'Green Revolution' in agri. which has promoted the greater use of capital and technology on lands. Consequently, there has been a greater increase in the agri. productivity and agri. incomes. FR model ignored the role of foreign trade as it assumed a closed economy model. In the 2nd phase when agri. product decreases the TOT goes against industrial sector. This would occur in the presence of closed economy. But if the model is made open such would not happen as the goods could be imported in the presence of then-scarcity. This was especially observed in case of Japan which imported cheap farm products to improve her TOT i.e. terms of trade.

7. Nurkse's Model of Dualism

Another view of dualism was Nurkse's theory which states that disguised unemployment or surplus manpower exists on a large scale in underdeveloped countries can be converted into real source of wealth. Nurkse believes that disguised unemployment can be used for capital formation which is badly needed in underdeveloped countries. He argued that if disguisedly unemployed are taken away from the subsistence sector and put to work on projects like irrigation, drainage and housing etc they can add to the capital formation. The whole process of mobilizing surplus manpower as a saving potential has been split into the surplus manpower transferred from agricultural to other productive projects and how to provide tools and equipment to the new workers to work on the projects. The disguised unemployment can be used as a source of capital formation when the process of converting the unproductive labour into productive labour is financed from within the economy and people are prevented from raising their consumption.

C.N.Vakil and P.R.Brahmananda have further elaborated Nurkse's theorem of disguised unemployment as a saving potential. According to them the transfer of surplus manpower from agricultural sector to capital sector be a "self-financing" process which can be eliminated through the forced saving.

8. Financial Dualism

Professor Hla Myint has developed the **theory of financial dualism**. Such dualism rises because of division of money markets in unorganized and organized money markets in LDCs. The rate of interest in unorganized market is higher than the rate of interest in organized money market which is concerned with modern sector. The unorganized money market consists of village money lenders, landlords, and arties. They charge the high interest because of the following reasons.

- (i) The lenders have monopoly and position of the borrowers is very weak.
- (ii) There is a shortage of savings in the traditional sector because most of the savings are made in terms of land or gold.
- (iii) Due to natural calamities etc. the risk attached with such lending are very high.

Professor Myint says that there was an old financial dualism which used to exist in the open economy of colonial period and the financial dualism which now exists.

Under colonial system there was perfect convertibility at fixed exchange rate. Consequently, there was no scarcity of foreign exchange and there were no BOP problems. But now days the LDC's have to face internal as well as external balance. Thus

the poor traders and small peasants not only have to face high interest rates, but also the scarcity of foreign exchange. Then they are not in a position to get advanced machinery etc.

Under colonial system, organized money market of LDCs is consisted of the branches of western commercial banks which were related with global financial market. In colonial system the modern sector consisting of mines, plantation and foreign trade borrowed at low interest rates both from western banks and the world capital markets. But the present LDCs have attained monetary independence by establishing their own central banks. They have introduced the exchange control.

As a result, the organized money market of the LDCs has been separated from the world capital market. Hence, their central banks are following the cheap monetary policy even when they are having shortage of funds. They are maintaining over-valued exchange rate on the ground that devaluation will create inflation. On the other hand there is chronic excess demand for foreign exchange in these poor countries. To meet this situation, these countries depend upon exchange controls, direct controls, monetary and fiscal policies. This has led to enhance the economic dualism between the traditional sector and modern industrial sector. The cheap monetary policy by maintaining artificial low interest rates has become helpful for the large industrial sector. The low interest rates have discouraged the flow of funds from abroad and savings from within the country. But it has created an excess demand for loans. Thus the major part of domestic savings are flowing towards industrial sector. This has reduced the capital to traditional and agriculture sector which have to get at higher interest rate. The foreign exchange control to correct deficit in BOP has also benefited the modern industrial sector against the traditional sector. It is because that the major share of available foreign exchange is allocated to the industrial sector to import capital intensive goods. On the other hand, the agricultural and small scale sector fail to get foreign exchange and import permits because of red-tapism and corruption in the LDCs. The most of the UDC's have established agricultural banks and cooperative societies. But these institutions have been found providing loans to the influential people and to the model villages.

All this has led to misallocation of resources between the modern and traditional sector. So money markets in the LDCs remain backward. Domestic inflation along with over-valued exchange rate has encouraged flight of capital. The countries where this is checked, the capital moved in the purchase of gold, jewellery, real estates and other speculative activities. This is because of low rate of interest against investment. Hence the money market remains ineffective.

Govt. controls over the scarce supply of capital have also retarded the growth of financial intermediaries in the LDCs. These controls favor the large manufacturing units and the banks. They discriminate against the small borrowers and the money lenders who provide credit to the small borrowers. In the LDCs govts. believe that capital funds invested in durable capital goods are productive while those invested in financing agriculture and trading activities are unproductive.


Professor Myint suggests **two types of policies to reduce financial dualism in LDCs:**

- (i) The official interest rate in the organized capital market be increased. This will attract the savings both from the country and out of the country. It will also create equilibrium between the demand for loan able funds and supply of loan able funds.
- (ii) There should be free access on equal terms to capital funds by modern and traditional sector. This will reduce misallocation of resources between the two sectors.

Different versions of dual economy theories have been subjected to wide-ranging criticisms; discussing them is well beyond the scope. Therefore, the major elements of those criticisms are simply listed here: (a) Dual economy models do not assume economic rationality with regard to agricultural employment levels but do assume rationality of decision-making with reference to agricultural landlords investing surplus in the industrial sector; (b) A two-sector model is too limited for analyses of the many problems related to development such as modernization, growth, and structural change; (c) The models present the dualistic conditions of developing economies as static with reference to degrees of interdependence, factor immobility, and asymmetry which are fixed at the time the model was designed and do not change in the course of development; (d) Both models assume that industrial as well as agricultural labor markets clear instantaneously and, therefore, all unemployment is voluntary; and (e) It is argued, at least by the neo-classicists, that food surpluses are produced and available for investment in industry because of an assumption that the elasticity for food is zero.

9. Summary

- Dualism theories assume a split of economic and social structures of different sectors so that they differ in organization, level of development and goal structures
- A dual economy is the existence of the two separate economic sectors with in one country divided by different levels of development i.e technology and different patterns of demand.
- Dual economies are common in less developed countries, where one sector is geared to local needs and another to the global export market.
- Dual economies may exist within the same sector for example modern plantation or other commercial agricultural entity operating in the midst of traditional cropping system

**Pathshala**
पाठशाला
A Gateway to All Post Graduate Courses