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A Note on Monetization, Economic Development and Cultural Change*

by

D. M. KANNANGARA and K. T. R. DE SILVA
Dept. of Economics, Vidyodaya University of Ceylon

MANY underdeveloped countries continue to possess (diminishing but significant) 'subsistence' (non–monetized) sectors. Most economists implicitly assume that the rapid monetization of these sectors will confer significant benefits on economic growth. Indeed (though it is conceded that monetization may eventually expose economic units to cyclical[1] or seculaɹ monetary instability and accompanying arbitrary changes in the distribution of wealth), it is customary to think of monetization as cxerting only (or predominantly) beneficial effects on economic growth and welfare. Parallely, central banks and planning commissions in underdeveloped economic systems usually attach importance to programmes which (directly or indirectly) accelerate the rate of monetization. There have been, however, two types and sources of dissent to this generally–accepted position. The first is by the well–known academic economist, Professor Higgins, who questions the alleged benefits to economic development from monetization[2]. The second is a significant, independent body of research accumulated in neighbouring disciplines which suggests that a community exposed to monetization and concomitant processes may suffer more damaging (and lasting) socio–cultural side effects than commonly believed; and that unless carefully controlled, monetization may become a powerful degenerative force. Thc purpose of this note is to comment critically on these two views (of dissent).

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1 "Business cycles do not become a prominent feature of economic experience in any community until a large proportion of its members have begun to live by making and spending money incomes. On the other hand, such cycles seem to appear in all countries when economic activity becomes organized predominantly in this fashion". Wesley Mitchell, *Business Cycles, the Problems and its Setting*, (N.Y., 1927) p. 182.

2 B. Higgins, *Economic Development*, (W. W. Norton & Co. Inc. N.Y., revised ed., 1968) p. 508.

Professor Higgins argues[3] that (*a*) it is not clear "that monetization of the economy will increase productivity", (*b*) there appears to be no significant differences in motivation to work or in the marginal or average propensity to save between economic units in the subsistence sector and in the money economy, and (*c*) "monetary economies are usually richer than non-monetary ones; but the causal connention is *from* low production *to* poverty *to* non-monetary economy, not *vice versa*"[4]. It is to be noted that Professor Higgins is *not* concerned with temporal, spacial or other problems of *transition* from a 'subsistence'[5] economy to a 'money' economy, but presumably with a situation in which the subsistence economy is replaced *instantaneously* and quite *mechanically* and without any 'impact effects'—by a money economy. In the two situations—before and after monetization—he would then compare attributes of economic units such as productivity, propensity to work and save which are widely acknowledged to be important for economic development. The argument is presumably that under these restrictive assumptions, the use of money (compared with barter arrangements) alone will not lead to significant changes in the economic attributes discussed (which in turn would fan the fires of economic development). This conclusion follows inevitably from his static (implicit) definition of monetization as a purely mechanical process. If his definition simplifies his analysis, it also severely limits his achievement. His thesis contains more initial promise than ultimate fulfilment; and, indeed, conceals more than it reveals, in the final result.

His view patently underestimates (i) the obvious difficulties of comparing motivational patterns, savings propensities and assets preferences in different sectors of underdeveloped economies; and the paucity of past efforts in that directions (ii) the superior convenience and efficiency of money compared with barter arrangements; (iii) the potential contribution that monetization is capable of making towards (*a*) specialization and division of labour, (*b*) the effectiveness of monetary and fiscal policies, and (*c*) the development of contractual relationships; and (iv) the significance of (lending and) the pooling of capital resources that may be necessary for relatively large-scale economic activities in the present-day underdeveloped countries. Admittedly, monetization will not necessarily usher in greater specialization, contractual relationships or the pooling of capital resources; but it defines an additional *potential*.—an unevaluated set of developmental possibilities and opportunities—which may or may not be searched, combed and harnessed for economic development. In any case while monetization alone will not provide the crucial driving force—the earnest of success of economic development—it is probably a necessary first step for accelerated economic growth.

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[3] *Ibid,*

[4] *Ibid,* (his italics)

[5] The term "subsistence" economy is used here to mean an economy that does not use money. It is not a pure subsistence economy in the sense that there are no barter transactions. For the use of money, after the instantaneous change, implies existance of exchange before the change.

Since programmes of economic development may envisage, not merely the monetization of subsistence elements, but also the *concurrent* creation of (*a*) institutional devices for the pooling of capital resources, (*b*) inducements to relatively 'lumpy' investments, (*c*) expanding horizons for specialization, and (*d*) legal and institutional reforms likely to foster the growth of contractual relationships, monetization may have greater value as one ingredient of such a "package deal" or plan than in isolation. Indeed once such dynamic effects are permitted into the model, there may be a case for the co-ordinated concentration of these several types of programmes simultaneously in the same geographical area. Such a composite planned programme may also be expected to overcome one of the chief defects of non-monetized savings from the viewpoint of achieving structural change—viz. their tendency to be markedly lacking in geographical and occupational mobility. Here again monetization policies are likely to be more fruitful if they are combined with parallel measures for promoting the mobility and optimal allocation of real resources.

If rates of monetization could be manipulated freely (without economic cost), and if net effects of monetization were always favourable, the case for faster monetization would be self-evident. In practice. the acceleration of the process of monetization well beyond current rates will in many cases require economic sacrifices (investment). Such investment may be direct or indirect. In either case, the principle of allocation for investment in monetization programmes would be the same as in other ("conventional") projects. Funds would be channelled into monetization schemes up to the point where their efficiency in raising some relevant index of welfare is no greater than that of competing investments. Where the investment in monetization is direct, a frontal attack is being made on subsistence. A case in point would be to coax subsistence farmers to the market with high prices. Where investment is indirect, (e.g. constructing a road to the interior) investment in conventional projects, because of their expected effects on the rate of monetization would be justified to a greater extent than would be the case if their expected effect on monetization had been neutral.

Intervention of the state that may be necessary to implement such investment could no doubt be defended on the basis of divergence of private and social marginal productivity; and the benefits (or harmful effects) accruing from alternative patterns of investment may be interpreted in terms of the familiar categories of external economies (or diseconomies). But the operational significance of any such criterion is exceedingly doubtful because its practical application would require a knowledge of the exact nature of the interrelationship between monetization and economic growth. But be that as it may this difficulty (overwhelming as it may be) is not adequate justification for ignoring the probable existence of such a two-way process of interaction.

The second type of criticism-based on a significant body of sociological research—is broader in approach and scope; and is less easy to handle in terms of purely economic categories. For instance, Furnival and Mead relate the upsurge of crime in Burma, in sharp contrast to the orderly habits of the people, the absence of crime and the rarity of litigation in traditional Burmese life, to the loss of the organic foundations of inter-personal relations[6], associated with monetization. Haily, Melby and Mead have held that in general the effect of a cash crop or wage economy on nutrition has been one of lowering the level by (*a*) tempting the peasants to put their best efforts into the cash crop or to sell the best, (*b*) introducing processed foods as prestige foods, (*c*) limiting the amount and quality of subsistence crops in favour of cash crops, (*d*) reducing the amount of time spent in preparation and preservation of food for consumption, and (*e*) robbing the land of its fertility[7]. Malnutrition has meant lowered resistence to disease while roads built into outlying villages frequently introduced new diseases[8].

Coomaraswami stresses the "communal" character of the aesthetic base of Asian arts and crafts, the significance of the role of communal art forms as a cohesive cultural agent and their vulnerability to "commercialization". Traditional art in the later phases had the fatal weakness that it "is beautiful by habit than by intention so that a single generation under changed conditions is sufficient to destroy it".[9] This, in turn, contributed to cultural disintegration. In many parts of Africa and Asia, the introduction of factory goods associated with monetization caused the rapid disappearance of local industries and crafts, with all the consequences that this entails for family relationships and village life[10]. In parts of Africa, Asia and New Guinea where labourers were brought from great distances or other countries, there was a great deal of disruption and demoralization among men living without women and without families and villages[11]. Monetization has frequently been accompanied by a tendency towards exploitation of unsophisticated communities by large planta-

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[6] J. S. Furnival, *Colonial Policy and Practice*. (Cambridge University Press, Cambridge, 1948); Margaret Mead (ed.) *Cultural Patterns and Technical Change*. (UNESCO, 1955 pp. 30–37).

[7] W. M. Haily, *An African Survey*, (Oxford University Press, London, 1938) p. 961; J. F. Melby: "Rubber River, An Account of the Rise and Collapse of the Amazon Boom", *Hispanic American Historical Review*, Vol. 22, No. 3, 452–69; Mead, *op. cit.* pp. 244, 253.

[8] Mead, *Ibid*., p. 253; H. C. Trowell: "Problems Raised by Kwashiorkor", *Nutrition Reviews*, Vol. 8, No. 6, pp. 161–63.

[9] Ananda Coomaraswami, *Arts and Crafts of India and Ceylon*. (Farrar, Straus & Co., N.Y., 1964) p. 24.

[10] Mead, *op. cit*., p. 247.

[11] Haily, *op. cit*., p.699; S. M. Lambert, *A Yankee Doctor in Paradies*. (Little, Brown, Boston, 1941) p.21; R.C. Thurnwald, *Black and White in East Africa*. (Routledge, London, 1933) p. 118.

tions and other groups[12]. In many instances, "Unsophisticated in financial matters, unused to a money economy, the peasants soon fell into irremediable debt and lost their land..."[13] in Africa, "the introduction of money economy has usually meant atomization of the individuals within the family, complete destruction of the structuring of family relationships, and of the social and economic system of the group"[14]. It has also meant "secession and revolt, the undermining of parental authority and the authority ot tradition, and this has resulted in the rise of a younger generation as a class apart"[15].

Briefly monetization may weaken and corrode the socio-cultural fabric of the subsistence sector. Confronted by money, wage work and the open market, deprived of the protection of hereditary positions and patronage in craftsmanship ensured by traditional institutions such as caste, hierarchy, status and kinship, forced to "earn a living instead of making a living", producing a utilitarian "cash crop" instead of "a value crop" around which religious and ceremonial life centres, and separated from traditional processes and body rhythms which nourish the harmonious continuity of man with land and nature, the subsistence sector may find its old skills, values, self-respect and viability in disarray and disintegration. In fact, chronic rural indebtedness, lethargy and the destruction of cohesive forces which have undermined production incentives in agriculture appear to have been some of the commonest concomitants of monetization under colonialism in many of the present-day underdeveloped countries. A traditional culture is an integrated behaviour pattern. A change in one part of an integrated culture are accompanied by changes in other parts. Economic activity is only one trait in the total cultural complex. To be successful, economic activity must achieve an organic interrelation with other parts. The existence of a "margin of surplus productive capacity", as postulated by Professor Myint[16] may not be a *sufficient* condition to ensure smooth transition.

Those economists who regard indigenous socio-cultural patterns only as hostile barriers to be overcome as quickly and on as massive a scale as possible (a "big-push" approach to monetization!)—and most economists seem to belong to this class—may indeed welcome such a process of disintegration.

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[12] C. M. Da Silva Rondon, "Problem Indigena", *America Indigena*, Vol. 3, No 1, p. 23-37; C. Wagley and E. Galvao, *The Tenetchara Indians of Brazil.* (Columbia University Press, N.Y., 1949) p.169

[13] Mead, *op. cit.*, p. 52.

[14–15] *Ibid.*, p. 240.

[16] Myint, in his otherwise admirable discussion of the subject, seems to depict the process of transition from a (peasant) subsistence economy to a money economy as a smooth and frictionless one, provided there was "a considerable margin of surplus productive capacity in the form of both surplus land and surplus labour" over the minimum subsistence requirements. H Myint, *Economics of Developing Countries*, (Hutchinson & Co., London, 1965), p. 44.

They will no doubt argue that it is wiser to accelerate the process of destruction than attempt to preserve the broken fragments of once-great traditions and cultures which are so palpably inconsistent with the needs of modern economic growth. But according to the viewpoint under discussion, they may well be underestimating the magnitude, the persistence and side effects of the malevolent influence of such degeneration; and the difficulties of filling the socio-cultural vacuum with the new substance of capitalism. We could degrade much; and yet create nothing new. Without motivational, cohesive and binding forces, money is an empty *numeraire* without creative force. An economy with money is not necessarily a monetary economy.

The prudent approach then may be to recognize that a traditional culture is not a collection of disparate elements but an organic and functioning whole and to promote the creative elements--those ingredients of monetization and accompanying processes that stimulate reform and adaptation towards more efficient forms-- while simultaneously and deliberately minimizing the destructive components. So conceived, monetization programmes will include programmes of personal reorientation. It may be necessary, for instance, to ensure the continuity of certain central binding ingredients of a culture in the midst of economic and occupational change and to introduce compensating and countervailing forces and other defence mechanisms against unsettling effects of change. Conscious efforts at education and adaptation, at strengthening the individual who must perform more efficiently in the changing context may be called for. The precise character and identity of the 'destructive' elements of monetization, and the best methods of combatting such 'negative' effects remain as critical areas for inter-disciplinary researches. But much may no doubt be said for a positive approach which views the non-monetized culture not as a retrograde obstacle to be smothered and destroyed, but rather as a potential reservoir of mouldable energy which can, without excessive disruption, be adapted and harnessed for economic development. It is no doubt a field of endeavour worthy of cultivation by plynners and by central banks in those underdeveloped countries which continue to have large non-monetized sectors. It is not a part of the purpose of this note to quarrel with the normative and prescriptive ingredients of the approach and criticism under consideration.

It is a particular merit of this apporach that it focusses attention on the need to (*a*) think of monetization as a *process* involving (i) time, (ii) change, (iii) impact effects and short-run and long-run effects, and (iv) economic as well as non-economic (cultural) dimensions (*b*) recognize the chains of interraction between economic and cultural effects of monetization. It is a further merit that it forces attention on the facts that (a) while economic development may be accompanied by cultural change, cultural *disintegration* or disruption may not necessarily contribute to economic development, (*b*) the creation of a cultural *vacuum* may indeed retard indefinitely the emergence of the "take-off" into self-sustained economic growth, and (*c*) cultural disintegration may not be inevitable under monetization if cultural effects are carefully controlled, even though monetization has not infrequently been accompanied by cultural disruption in the past (and even if the risk of cultural dislocation were to be greater at the monetization stage than in later phases of economic evolution[17]). But it is also very necessary to recognize weaknesses. Advocates of this viewpoint are frequently guilty of (implicitly) identifying the effects of colonialism, of imperialism, of racial discrimination, of foreign trade, of the development of plantations, of mines, of foreign enclaves and of economic dualism generally, and indeed of the entire process of economic development itself with the effect of monetization. Further, the view fails to distinguish adequately between different stages of evolution reached by societies exposed to monetization as well as between important degrees of differences in the 'elasticities' of their cultures. Patently, the impact of money on a primitive tribal society would be different from that on a partially-monetized society with highly-absorptive cultural capacities (such as Ceylon or India). Consequences of monetization are likely to be determined at least in part by the type of causal factors behind monetization and by the present characteristics and patterns of interpersonal relations of economic units exposed to monetization.

To conclude: It seems helpful to think of the concept of monetization as a process involving time, space, and human beings; and to define it broadly as a socio-economic process which transforms the subsistence-barter sector of an underdeveloped economy into a money economy (rather than narrowly as a timeless, instantaneous and purely mechanical one).—though not so broadly as to include a motley of historical phenomena which may accompany monetization in particular contexts. Economic development may then be defined as the entire socio-economic process which leads to sustained increases in *per capita* income of indigenous economic units, of which monetization forms an integral part.

Money is any medium of exchange. A money economy is an economy which uses money. The use of money implies exchange, though exchange can take place without the use of money. A money economy does not imply zero subsistence or barter transactions just as much as a subsistence or barter economy does not imply zero money transactions. The degree of current monetization achieved by money economies (and indeed by different economic sectors within a particular money economy) may differ widely. Neither subsistence (or barter) economies nor money economies are likely in practice to be homogeneous entities. Both monetization and economic development involve change; but not all change (and not all economic change) is—or is associated with—monetization or economic development. Both monetization and economic development frequently involves cultural change, but cultural change may occur without either monetization or economic growth. Cultural disintegration is a form of cultural change, but cultural change may occur

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[17] The view under consideration does not spell out such a hypothesis.

without cultural disintegration. But we can have monetization (and economic development) without cultural disintegration, even if cultural change is inevitable under monetization. Monetization is necessary for economic development; and economic development seems inconceivable without monetization. Monetization which accompanies (or which is followed by) economic growth becomes an integral part of the process of development. Monetization defines a potential for development which may or may not be harnessed for development. Monetization may occur without economic development.

In fact it is this sort of monetization unaccompauied by progressive, sustained increases in *per capita* indigenous income—that was typical of a great many Asian and African economies under colonial rule. As far as the capitalist foreign *enclaves* were concerned, there was no process of monetization. They *commenced* as monetized sectors. The traditional sector not merely remained economically underdeveloped in spite of considerable monetization and cultural change. In many instances, impressive increases in aggregate and *per capita* income were accompanied by declining incomes (e. g. Indonesia under Dutch rule) of the economic units of the traditional sector. But there was a great deal of monetization—monetization of the traditional sector being in this case largely a "backwash" effect, without creative *espirit*—; and a great deal of economic and cultural change, with and without cultural disintegration! All changes associated with monetization in particular historical situations are not necessary consequences of monetization.

Monetization creates a money economy out of a non-monetized one. But a money economy is not necessarily a *monetary* economy; although a monetary economy is necessarily a money economy. A monetary economy does not imply zero subsistence or barter transactions; though in a monetary economy subsistence elements would be at minimal levels. While the degree of monetization achieved dy money economies which are not monetary economies may differ widely in the present stage of human evolution, this is not generally so among monetary economies. In monetary economies, subsistance and barter element can safely be ignored for most practical purposes. Most developed capitalists economies are monetary economies. There is doubt as to the extent to which completely socialist economies (with no private ownership of the means of production) can be termed monetary economies. Keynes defines a monetary economy as one in which "money plays a part of its own and effects motives and decisions and is, in short, one of the operative factors in the situation so that the course of events cannot be predicted, either in the long period or short, without the knowledge of the beheaviour of money between the first and the last" [18]. A monetary economy is an economy with a *pecuniary culture*. What little economists know of pecuniary cultures is

[18] J. M. Keynes, in *Der Stand und die nachste Zunkunft der Konjuncturforschung, Festschrift fur Aruth Spiethorff*, (Munich: Duncker & Humbolt, 1933)

distilled for us for the most part by a few intrepid explorers of economic history and institutions such as Marx, Weber, Tawney, Sombart, Veblen, Commons, Mitchell, Clark, Schumpeter and Pirenne. In a pecuniary culture, the mainstream of national motivational energy is harnessed to money making which is elevated to a pre-eminent position among the overt goals of human life. In a monetary economy, money becomes a crucial operative driving force, directly and causally related to motives and decisions which govern employment, production and capital accumulation. In a monetary economy "real social wealth (stocks of goods) will be produced by entrepreneurs only if there is the expectation of transforming them into unreal social wealth (money). In brief what is 'real' to society is 'unreal' to the individual producer, and what is 'unreal' to society is 'real' to the individual producer"[19].

Monetary economies are highly consistent with rapid economic development and technological progress. But we do not know the extent to which non-monetary economies (generally and of different types) are inconsistent with economic development. For instance, are cultures in which pecuniary motives are important but not dominant inconsistent with high rates of economic development? Is it not possible for a country to realize significant rates of economic development while devoting a larger proportion (than present-day monetary economies) of its resources and energies to art, religion, politics? Does the rapid economic development of the underdeveloped countries of Asia, Africa and Latin America inevitably imply the eventual emergence of homogeneous world civilization in the present-day Western "image", based predominantly on technology, and concerned largely with the 'means of life' rather than with the 'ends of life'? Would economic development then imply the abandonment of "that conception of the harmony of life" which has been the binding thread of the less-materialistic philosophies of Asia? Does a pecuniary culture necessaily imply Westernization? Assuming that eventual homogeity is inevitable, should it not result from evolution from *within* the socio-economic intrinsicality of the present-day less developed countries rather than be the result of bald imitation? How far can the dormant growth pulsations, pressures and latencies of such economies be directed towards the attainment of economic progress, absorbing much that is new without discarding the best of the old – a distinctive amalgum of many elements (rather than a high density of homogeneity) very different from civilizations currently found in the Western world? What central values, if any, of the traditional cultures of the present underdeveloped world can be preserved during sustained periods of economic development? Is the risk of cultural disintegration greater or less in the monetization stage than in later or earlier phases of economic development? Do we have enough observations even to hazard tentative (negative or positive) conclusions? Shrouded by such mists, the circle of knowledge and compsehension in this no-man's land of the social sciences remains tentalizingly small in spite of impressive recent gains in the individual disciplines.

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[19] Dudley Dillard "The Theory of a Monetary Economy" in *Post-Keynesian Economics* (ed.) K. Kurihara, (Allen & Unwin Ltd, London, 1955) p. 28.