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14. Notes on dual economy conceptions in economic analysis

David Leadbeater

INTRODUCTION

As it has been used in Economics in differing contexts since the 1950s, economic dualism has referred to the existence within a given economy of two sectors, one which is leading, more developed, or wealthier, and the other which is generally subordinate, less developed, or poorer. The second is treated as being an autonomous or divergent subsystem, or as being subject to a different set of structural economic forces and having inferior conditions of well-being. My argument is that the conception of dual economy (or economic dualism) might have some value as a heuristic or a point of entry for the analysis of complex and pressing economic issues; there are often elements of truth and a capacity to focus attention in analyses of duality. However, in social scientific terms, there have usually been substantial flaws in dualism coupled with a dependence on neoclassical theory that has reduced its effectiveness as an alternative to neoclassical theory or neoliberal policy. Further, economic dualism can obscure more radical critiques of capitalist development and deflect debate from fundamental but contentious policy questions. Here I illustrate the argument with a few instances of economic dualism and some of its conceptual problems, then conclude with a brief comment on the policy implications of dual economy analysis.

The earliest use in mainstream economics of the dual economy conception is most commonly identified with Arthur Lewis's 1954 paper "Economic Development with Unlimited Supplies of Labour."¹ Lewis's model, which became a foundational element in Development Economics, is based on the view that certain poor capitalist economies can be analyzed as having such large and persistent quantities of surplus labour that it depresses wages and living conditions. In contrast to the neoclassical full-employment assumption or the more temporary surpluses of labour in the Keynesian approach, Lewis positioned his model as being in the "classical framework in solving problems of distribution, accumulation, and growth" (Lewis, 1954:1).

Lewis argued that the unlimited surplus labour assumption referred to unskilled labour and that it was applicable in particular to certain “under-developed” countries such as Egypt, India, and Jamaica. By contrast, Lewis claimed, “It is obviously not true of the United Kingdom, or of North West Europe” (1954:2). Lewis analyzed such poorer countries as having two sectors, a “capitalist” sector and a “subsistence” sector. The surplus labour, which has negligible, zero, or negative marginal productivity, is maintained at a subsistence level in the subsistence sector which supplies labour to the capitalist sector. The capitalist sector hires labour to the point where its marginal productivity equals the wage, and the wage level is held near or at the subsistence level by the surplus supply of labour available.² In this latter regard, the capitalist sector has an interest in maintaining conditions in the subsistence sector at subsistence levels in order to keep wages low in the capitalist sector: “The fact that the wage level in the capitalist sector depends upon earnings in the subsistence sector is sometimes of immense political importance, since its effect is that capitalists have a direct interest in holding down the productivity of the subsistence workers” (1954:6).

In certain ways, particularly in recognizing the persistence and role of surplus labour, the Lewis model appears to break from neoclassical orthodoxy and assert a more realistic view of economic development, at least in colonial conditions. However, the Lewis conception of the two sectors has a lot of empirical imprecision in its definition. At times, particularly in later interpretations, the subsistence sector is viewed as being a “traditional” agricultural sector motivated by subsistence, not primarily profit-making production, in contrast to a “modern” sector, and, hence, as an autonomous system or mode of production with its own dynamics and rules.³ But Lewis himself expanded the subsistence sector to include casual workers (dockworkers, porters, or gardeners), petty traders, domestic and commercial retainers (servants and messengers), wives and daughters in households, and net population increase.⁴ In the end, there is no distinguishing and consistent characteristic to the subsistence sector other than its being the repository of surplus labour that acts to hold down wages in the capitalist sector.

Critics have questioned the implied lack of dynamism in Lewis’s subsistence sector, the extent of its labour redundancy and lack of productivity, and the secondary and imbalanced role for agriculture that the model implies, among other things. The key point here, however, is that while the two sectors are often viewed as being different systems or modes of production, the sectors are in the end defined by their interacting functions, the capitalist sector by capital accumulation and growth in labour demand, and the subsistence sector by supplying labour and depressing wages.

Lewis was well aware of Marx's theory (Tignor, 2006), and the subsistence sector appears little more than a version of Marx's industrial reserve army of labour (or relative surplus-population) though in a form emphasizing "disguised unemployment" or Marx's latent reserve. On the other hand, Lewis's theory was a step backwards from Marx's more critical and sophisticated treatment, for example, in rejecting the existence of technological or productivity-induced unemployment in the capitalist sector. While Lewis's work raised important concerns about the conditions of colonized areas, the theory actually contains very little about the ownership or class structures characteristic of colonialism in general or about the specific countries for which he deems the model applicable. Without a more rigorous empirical discussion of the subsistence sector one is left with a conception of surplus labour, which could as much exist – and does, such as in the household – in developed capitalist economies. Further, the model still holds to a fundamental of neoclassical theory, the marginal productivity theory of distribution and wage determination.⁵

In the US, dualism has grown out of Institutionalism and as a critical reaction to neoclassical and Keynesian orthodoxy (for example, Averitt, 1968). In the field of labour economics, in particular, economic dualism appeared from the 1960s in discussions of persistent inequality in labour markets including by race and gender. In the most prominent original dualism, Doeringer and Piore (1971) argued that the labour market is divided into a primary and a secondary labour market, in theory, by job characteristics.⁶ Jobs in the primary labour market possess "high wages, good working conditions, employment stability, chances of advancement, equity, and due process in the administration of work rules," while jobs in the secondary labour market were characterized by "low wages and fringe benefits, poor working conditions, high labour turnover, little chance of advancement, and often arbitrary and capricious supervision" (165). The Doeringer and Piore argument viewed the US labour market as reflecting both a general dualism in the economy and a specific institutional evolution within the labour market, particularly an increased importance of skill training.

This early version of labour market dualism evolved iteratively, including notably by Reich, Gordon, and Edwards (1973), who saw dualism defined more by worker characteristics and capitalist power: labour market inequality persisted because, when faced with a historically increasing power of workers, "employers actively and consciously fostered labour market segmentation in order to 'divide and conquer' the labour force." The primary labour market, relative to the secondary labour market, had disproportionately more white to non-white workers, and more male to female workers. Other worker characteristics such as native-born to immigrant, and high-education to low-education also found their way into

characterizations of the dualism. Generally, whether there exist two or multiple sectors or segments in the labour market, the conception is that: (1) the primary market is separated or segregated and not subject directly to the competition of the secondary market (or of a labour reserve), and (2) this dualism is associated with a dualism in market structure, particularly between monopoly capitalist and competitive capitalist sectors or, as sometimes characterized, “core and peripheral” sectors.

Labour market dualism can be seen as a more realistic effort to contend with the problem of the persistence of inequality in labour markets, and hence a break from the neoclassical approach and its underlying belief in convergence. But like developmental dualism, the typology of primary and secondary labour markets has been criticized as inconsistent and empirically inadequate. As noted by Botwinick (1993, Ch 2) in his critique of labour market dualism, empirical evidence continued to challenge the dual categories. For instance, there exist some primary labour markets in peripheral (competitive) industries like construction and longshoring that do not share any of Doeringer and Peore’s structural characteristics. For Botwinick, labour market dualism was an extension of Institutionalism and never an effective replacement to the neoclassical approach to the labour market or to a consistent theory of wage determination. Albelda and Drago (2013, 152) too question the accuracy of a dualism that includes in the primary sector higher paid manufacturing workers, as such jobs have been disappearing due global competition and reduced job security. They suggest that the “old form of segmentation” might be disappearing though taking a new form. While one can introduce new or varying types of dualism or segmentation, dualism appears inadequate to explain the transformation of labour market institutions by capitalist competition in the direction of lower or stagnating average wages and conditions, without introducing a labour reserve and its role in impoverishment.

From his field of economic history, Peter Temin (2016) has recently applied dualism to the contemporary US economy to analyze not simply persisting but increasing inequality since the 1980s. Citing Lewis’s subsistence and capitalist economies, Temin creates the duality of a finance, technology, and electronics (FTE) sector and a low-wage sector. While his primary evidence is based on income, Temin says he distinguishes the two sectors by skills and occupations. “The first and most familiar sector consists of skilled workers and managers who have college degrees and command good and even very high salaries in our technological economy” (89). By contrast, the low-wage sector “consists of low-skilled workers who are suffering the ills of globalization in its various aspects.”⁷ He estimates the FTE sector has 30 percent of the population and low-wage sector has 70 percent. For Temin, the transition from the low-wage to FTE sector is

made through education, though this transition has become more difficult due to inadequate expenditures in education as well as racial and class barriers in the college system.

Several elements in Temin's analysis deserve detailed discussions in their own right, particularly his claimed interrelations between occupation, industry, education, and incomes. But for present purposes I want to note how his dualism turns in the end around identifying what are the polarizing forces in the economy, who is impacted, and the relation between the two. It is not at all clear from the analysis that Temin's duality by occupation and skill is actually stable, let alone that it has a stable correspondence with low or falling incomes versus higher rising incomes, or how precisely these levels or trends are defined, or how this relates to persisting segregation by race or gender.⁸

For instance, his own article notes low pay in teaching yet this is not usually seen as a low-skill occupation. Further, in the face of such evidence as the impoverishing of education workers or certain skilled work, Temin's dualism still does not appear to break with the neoclassical human capital doctrine or the marginal productivity theory of distribution. One wonders what is the evidence Temin uses to claim that higher education or skill, particularly in finance, leads to higher marginal productivity (hence, such high incomes) – or even if education or skill has much to do with the increased incomes in finance.

Temin does raise important concerns about social polarization and the roles of globalization and systemic white supremacy (not simply racial "discrimination"). But in terms of analysis, his dualism, like others, founders on problems in the clarity, consistency, and stability of its typology and the fundamental issue of the competitive force of the labour reserve in polarization and impoverishment. In drawing on the legacy of the Lewis model, Temin mischaracterizes the Lewis model as a rural-urban duality (though this is not uncommon) and in so doing occludes the more critical Marxist element in Lewis's analysis of the subsistence sector: the subsistence or low-wage sector acts to depress wages in the capitalist sector; hence, drives generally lower *average* conditions across the economy. Further, Lewis's model was geared to explain a transformation in growth appropriate to a colonial country. Temin's version is about a developed capitalist country that turns to dualism beginning in the 1980s, largely triggered by policy decisions. In itself, the appearance of such a dualism, especially given the long history of white supremacy, should raise the question of whether the present dualism is simply a unique period of disparity in the neoliberal era or whether the existence of the low-wage sector or such disparity has a previous history and persisting economic function.

Lastly, I will give an example of a popular dualism from my research on mining towns in urban and regional development. Since the 1980s the

conception of “rust belt” regions has appeared in the popular media and even academic discourse to characterize some US and Canadian areas of primary and manufacturing industry suffering employment and civic decline.⁹ One common implication of this characterization and related stereotypes is that the industries of these towns or regions have been economically backward, outmoded, or even unproductive by comparison to the modern, leading, or “post-industrial” sectors (such as perceived of Temin’s FTE). The resulting “deindustrialization,” which is often associated with a general decline of employment and population in hinterland areas, is viewed with a metropolitanist bias as being the problem (and sometimes fault) of the region itself and not more fundamental conditions of the capitalist economy.¹⁰

But the evidence, for instance for mining, is that the industry is actually highly productive and technically advanced, to the point that much less labour is demanded to sustain production; in reality, the decline has been associated not with backwardness but its opposite, high productivity, and the decline is tied, often exploitatively, with conditions outside the area.¹¹ Of course, some views of “rust belt” areas are sympathetic to the areas and even critical of neoliberal policies, but the general dualism applied to such areas, reinforced by stereotyped characterizations, undermines analyses of such areas that are both more realistic and radical, including their often colonial and environmental dimensions.

As a whole, I would argue that the rise of dual economy models in the post-Second World War period dominated by the Cold War was a response to the glaringly evident disparities present in colonial and former colonial areas and, later, in the wealthier capitalist countries. The approach was critical of capitalist development patterns but still within the acceptable ambit of neoclassical and Keynesian economics. In its initial Lewis form, dualism was clearly influenced by Marxist theory, particularly the labour reserve analysis. In this respect, the Lewis model stepped outside the neoclassical full-employment doctrine, and Lewis also acknowledged explicitly both that the subsistence sector depressed wages in the capitalist sector and that the capitalist sector had an interest in maintaining subsistence conditions. Further, Lewis carried this critical view into the international sphere, considering it “one of the worst features of imperialism” (Lewis, 1954: 6–7): “The imperialists invest capital and hire workers [in the colonial countries]; it is to their advantage to keep wages low, and even in those cases where they do not actually go out of their way to impoverish the subsistence economy, they will at least very seldom be found doing anything to make it more productive.”

This said, Lewis also expressed the view that there exists no labour reserve either in the capitalist sector of the model or in actual developed capitalist economies, and he ruled out unemployment from technological

change or productivity-enhancing growth (such unemployment was only “theoretically” possible).¹² However, denying persisting unemployment in the capitalist sector can go only so far, unless one is prepared to rule out technological or productivity impacts on unemployment, the unemployment-reducing role of the non-market state sector, and, beyond the closed economy model, negative employment impacts of globalization (such as suggested by Temin).

Unfortunately, the more critical elements of the Lewis model, particularly around the fundamental role of the labour reserve, are often muted if not absent in later dualisms, whether seen as a domestic labour reserve or as an extended internationalized labour reserve. As well, while later dualisms do recognize the role of differential bargaining power between labour and capital within the capitalist sector, the role of the labour reserve and its racial and gendered evolution is not usually seen as a key factor determining that bargaining power, including in defining and valuing skill and its productivity.

What are the implications of dualism for policy? Economic dualism generally arose in the context of social democratic or reformist critiques of capitalism. In the early decades after the Second World War, a wide range of labour and progressive political forces in the developed capitalist countries generally emphasized full employment and a break with *laissez faire* policies that had led to and worsened the Great Depression. Since then, the states in developed capitalist countries, gripped by neoliberalism, have largely abandoned full employment or redefined it downwards, privatized the “mixed economy,” reduced Welfare State programme standards, and hardened actions against labour and democratic rights. In the present context, it is not surprising to see a rise of more critical views of capitalism and, in particular, a renewed interest in dual economy analyses of capitalism.

However, the political economic situation today makes it more difficult to break with dualism in distribution without a more fundamental change in power, particularly to achieve a robust full employment if not over-full employment, eliminate the labour reserve, and expand social programs. Policies now have to contend more directly with growing environmental crises, and expanded globalization and militarism. Given sharper environmental constraints, impoverishment cannot be solved simply by higher rates of material growth. Nor can there be a major redistribution internationally without ending the highly concentrated corporate ownership and power driving the neoliberal order, including its enormous waste of resources on militarization and war. Eliminating the dualistic structures of capitalism today will require structural changes and redistribution. Some believe this is still possible within capitalism. I suggest that economic dualism, taken to its roots in the analysis of the labour reserve, leads to a fundamental critique of capitalism itself and the need for a serious discussion of socialism.

NOTES

1. Besides Lewis (1954), Boeke (1953) is also mentioned but given less attention.
2. "Earnings in the subsistence sector set a floor to wages in the capitalist sector, but in practice wages have to be higher than this, and there is usually a gap of 30 percent. or more between capitalist wages and subsistence earnings" (Lewis, 1954: 7). It is not clear if the surplus labour must all be living at the same subsistence level because, for Lewis, the subsistence level can be either as determined by the average product of peasant farmers or "subjectively in terms of a conventional standard of living" (6).
3. Lewis himself later shifted his own terminology for the two sectors to "modern" and "traditional" (Lewis, 1979).
4. Further, the capitalist sector is subdivided, and Lewis (5) allows that his conception is present in earlier stages of capitalist development generally: the capitalist sector, like the subsistence sector, can also be subdivided. What we have is not one island of expanding capitalist employment, surrounded by a vast sea of subsistence workers, but rather a number of such tiny islands. This is very typical of countries in their early stages of development."
5. Lewis makes this explicit: "Our present task is not to supersede neo-classical economics, but merely to elaborate a different framework for those countries which the neo-classical (and Keynesian) assumptions do not fit" (2).
6. See Ryan (2008) for a useful overview of primary and secondary labour markets.
7. Elsewhere (98) he notes that "Low wages are the result of increased supply coming from globalization – trade, immigration, moving production offshore – and decreased labour demand coming from improving technology" and that these were largely policy-initiated. In terms of function, Temin sees the low-wage sector as supplying services to the FTE sector: "Rural people sold food to cities in the Lewis model; members of the low-wage sector sell services to the FTE sector in this modern reincarnation."
8. Temin moves between income and education in ways which themselves question how empirically clear or stable are his two categories, particularly in defining the FTE sector: "However, a college education does not by itself guarantee a high and rising income. The choice of major, the state of the business cycle, and other less intangible personal characteristics affect the relation between education (or human capital) and income" (89). One can legitimately ask what are the effects of such major factors on Temin's categories and claims.
9. Among more serious historical discussions of the "rust belt" are High (1984), Neumann (2016), and High et al. (2017).
10. Those conditions include extraterritorial capitalist ownership and control of resources, and resource-export dependency and the political-state framework that maintains them.
11. See, for example, Leadbeater (2014, 2009).
12. Lewis (1954, 4) asserted: "It is clear that the effect of capital accumulation in the past has been to reduce the size of the reserve army, and not to increase it, so we have lost interest in arguments about what is 'theoretically' possible."

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