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# ENCLAVITY AND CONSTRAINED LABOUR ABSORPTIVE CAPACITY IN SOUTHERN AFRICAN ECONOMIES

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## *Foreword*

The International Labour Organization (ILO) is a member of the United Nations family of organizations whose special mandate is the promotion of safe and decent work in all countries of the world. Unlike other specialized UN agencies, the ILO is a tripartite organization, and each country is represented not only by its government but also by the representatives of its workers and employers. Similarly, ILO services are provided to trade unions and employers associations as well as to governments. Over the eight decades since its establishment in 1919, the ILO has promulgated a large body of Conventions which deal with labour and social issues. The general thinking behind these Conventions is that, as stated in the Preamble to the ILO Constitution, “the failure of any nation to adopt humane conditions of labour is an obstacle in the way of other nations which desire to improve the conditions in their own countries”. The Conventions establish benchmarks for all governments in their efforts to promote decent and safe working conditions, and can also discourage backsliding by member States.

In the global economy, the fulfilment of the ILO’s mandate requires new and innovative approaches. To better equip the organization to pursue its mandate in the next century, the ILO Director-General has formulated four strategic objectives. These are:

(i) promoting and realizing fundamental principles and rights at work;
(ii) creating greater opportunities for women and men to secure decent employment and income;
(iii) enhancing the coverage and effectiveness of social protection for all; and
(iv) strengthening tripartism and social dialogue.

These objectives will focus ILO activities in the coming years, providing complementary and mutually reinforcing approaches to ensuring decent work for all people.

In the mid-1990s, the ILO sought to move even closer to its constituents through a major decentralization of staff, resources, and authority. Under its Active Partnership Policy, it established multidisciplinary advisory teams in Africa, Asia, Latin America, and Central and Eastern Europe. These teams include specialists in areas such as labour standards, employment and labour markets, small enterprise development, occupational safety and health, social security, industrial relations, labour administration, workers’ and employers’ activities, statistics and training, as well as in such cross-cutting issues as gender. Demand driven, the teams respond to requests from ILO member States, trade unions, and employers associations for advice on policy issues and assist governments in the design and implementation of development programmes and projects. The Southern Africa Multidisciplinary Advisory Team (SAMAT), based in Harare, Zimbabwe, provides these services to nine countries in Southern Africa.

As one of its services, SAMAT publishes a series of discussion papers on labour and social issues of which this paper is a part. Through this series, SAMAT seeks to create an ongoing dialogue with governments, workers and employers by promoting the ratification and application of the ILO Conventions in a regional context, presenting ideas for new labour and social policy directions, and providing regional statistical data and comparative analyses which enable the member States to learn from others' experiences.

I am pleased to present this latest contribution to the ILO/SAMAT Discussion Paper Series entitled ‘Enclavity and Constrained Labour Absorptive Capacity in Southern African Economies’. The paper is concerned with the twin questions of why it is that a majority of the labour force in African countries continues to be unemployed or underemployed, and why it is that the response of employment to increases in gross domestic product and investment is low. This is what the author terms the problem of low labour absorptive capacity of African economies.

The essay argues that there are historical structural factors that result in the exclusion and marginalisation of the majority of the labour force from engaging in productive activities of a sustainable nature. These factors are attributed to the enclave and dualistic legacy of African economies. This legacy was initially a consequence of the fact that the formal sector emerged as an exogenous implant whose modus operandi was generally linked to external factors, thereby obviating the need for an internal accumulation and transformation process to emerge that would have captured the majority of the labour force into the capitalist process of accumulation. It is argued that the problem persists as a consequence of the uncritical acceptance of the enclave formal sector as the engine of growth, as well as of the belief that trickle down effects from formal sector growth would eventually absorb the rest of the labour force into productive activities.

The paper concludes that pro-active measures by the state are necessary to restructure the productive base of the economy by making it more inclusive of the majority of the labour force. This could be accomplished through a number of interventions that broaden the asset and income entitlements of the majority of the labour force, in particular through policies that are decidedly biased toward those activities that would absorb such people more. What is needed is a shift in paradigms from the trickle down assumptions of current conventional economic policy regimes to one informed by the structural limits of the enclave model of growth and guided by the need to pro-actively restructure this legacy in order to launch a basis for more inclusive development.

This paper was prepared by Professor Guy C.Z. Mhone, Director, Graduate School of Public and Development Management, University of the Witwatersrand, Johannesburg, South Africa.

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# 1. Introduction

One of the most vexing issues in economic policy analysis is the fact that the majority of the labour force in Africa continues to be openly unemployed or underemployed when many developing countries in other regions that were similarly placed three or four decades ago have made the crucial turn toward more inclusive growth and development. This problem has continued to fester under all kinds of policy regimes, thereby belying the usual optimistic assumptions by economists about the long run. Indeed the persistence of this problem remains the Achilles heel of current economic reforms, which appear to have been uncritically embraced as the panacea. While there may be sufficient consensus regarding the efficacy of certain packages of reforms such as stabilisation and structural adjustment programmes in promoting growth, there is still much debate, if not scepticism, about the ability of these reforms to resolve the perennial employment problem in Africa.

We refer to the problem of unemployment and underemployment that afflicts virtually all African countries as the problem of the low labour absorptive capacity of African economies, with special reference to Southern African countries. This problem strikes at the heart of the growth and development problematique and should not be dismissed lightly by appealing to the long run impact of trickle down effects or the possibility of people lifting themselves up by their bootstraps as a result of the efficacy of market mechanisms. It is necessary that the debate about the paradigms informing various policy stances be opened anew.

This paper resorts to an earlier paradigm initially mooted by Arthur W. Lewis in several of his writings within the context of neo-classical analysis (Gersowitz, 1983), but also propagated in various forms by Marxist-inspired political analysts of underdevelopment. More recently, the Structuralism school has continued this line of argument but often at the margin of the policy debates. This paradigm views the African economies as being afflicted by a legacy of enclave growth and development. This legacy is rooted in part in the manner in which capitalism penetrated these countries as latecomers on the global development scene, as well as in the failure of various policy regimes, whether socialist and market oriented, to address the structural roots of the problem through policies of omission and commission. The paradigm of enclavity links the problem of the low labour absorptive capacity of African economies to the structural legacy of economic dualism that is in part self-perpetuating, even within the ideal market context of current structural adjustment programmes, and in part policy-induced, even if inadvertently. The implication of this paradigm is that proactive policies are needed to supplement the usual market friendly measures if the vicious circle of perpetual unemployment and underemployment is to be broken.

# 2. The problem

It is indeed of interest that after almost a century of exposure to capitalism during the colonial period and three or four decades of independence, the majority of the labour force in all African economies, notably Southern African economies, remains unemployed or underemployed. The formal sector, which is the most productive and dynamic part of African economies, accounts for less than 20 per cent of the labour force, with the exception of a couple of countries such as South Africa where it is as high as about 40-50 per cent. The majority of the labour force in most countries is engaged in non-formal economic activities of primarily a survival nature. These non-formal activities comprise subsistence agriculture and the informal sector.

Since able-bodied individuals in Africa are rarely unemployed openly, it is more useful to regard underemployment as the major problem. The persistence and pervasiveness of underemployment is a fundamental problem for both economic and social reasons. From the point of view of economic efficiency, the fact that a significant part of the labour force remains under-utilised must represent a drag on economic growth and development. Indeed, economic development has little meaning if economic growth does not provide the majority with the opportunity to engage in productive economic activities and improve their living standards. At the social level, the underemployed individuals do not produce and earn enough to ensure decent standards of living. The results are easily seen in the low life expectancy and the high incidence of health and social maladies. The persistence of underemployment is thus of interest on both economic and humanitarian grounds.

This paper is concerned primarily with the economic aspects of underemployment. It is necessary at the outset to clarify the different meanings that may be attached to this term. Underemployment may first be defined in a substantive sense as an aspect of the capitalist mode of production. In many developing countries, and particularly in Africa, social formations comprise the co-existence of capitalist and pre-capitalist modes of production, which are fused together in an uneasy and seemingly tenuous co-existence dominated by the capitalist mode. Historically, the general expectation has been that the progressive nature of capitalism and the market would gradually overwhelm, transform and absorb pre-capitalist forms of production into its sphere. From the point of view of capitalism as a mode of production, pre-capitalist forms of work, even if to some degree market-related, primarily constitute non-productive labour in the sense that labour is not aimed at profit-making or the continuous expansion of capital for its own sake. Labour that is not subsumed under the profit-making imperative of the market may be regarded as non-productive in that it does not continuously contribute to dynamic growth at the microeconomic and macroeconomic levels.

Thus, in the first place, underemployment manifests itself as non-productive labour from the point of view of the market and capitalism since it is not embraced and captured by capital. If we refer to the capitalist part of a country’s economy as the formal sector, and to its pre-capitalist part as the non-formal sector, we may include in the latter the subsistence and informal sectors of a survival nature. The non-formal sector then constitutes the remnants of pre-capitalist forms of production, comprised of non-productive labour from the point of view of capitalism. A wider definition of non-productive labour would also include any labour or work that is primarily used for consumption purposes, such as housework and servants. Thus an important requirement for development under capitalism is the need to capture non-productive labour into its realm of operation. It is one thing if such labour only represents a small proportion of the labour force, but quite another when it constitutes the majority of the labour force. Indeed, both developed and developing countries have some degree of non-productive labour amidst their economies. The major difference is that while such labour is a small and declining proportion of the labour force in developed economies, it is a large and increasing proportion in many developing countries, particularly in Africa, and this is what constitutes a major problem.

In the second place, underemployment may be defined in a technical economic sense as it relates to production per se. In this sense, it refers to labour for which an additional unit of effort contributes little or nothing in terms of additional output, or for which marginal productivity is low, zero or even negative. The notion of underemployment in its technical sense is rather difficult to pinpoint, either empirically or intuitively. On a normative level, labour can be said to be underemployed if, under known techniques of production, it is possible to reallocate it such that its average and marginal productivity could be increased. Alternatively, labour could be said to be underemployed if the withdrawal of some labour or effort could leave total output the same or increase it, even if some reorganisation of work and effort among the remaining workforce might be needed.

The underemployment in its technical form is generally obfuscated by the fact that it is shared among those who are underemployed. Thus, for instance, a household engaged in subsistence farming may share the workload involved in producing the same amount of output regardless of the size of the household merely by varying the number of hours worked per person. Similarly, informal sector participants may continue to enter a stagnant or shrinking market for survival reasons, without adding to total output or revenue for the group as a whole. In both these cases, output per head would rise if numbers were reduced, even if the remaining labour may have to work more. That proportion of the participants in the activity that is redundant is in effect in disguised unemployment and therefore underemployed. However, given that such underemployment is shared, the underemployment may be generalised to the group as a whole. This technical form of underemployment is typical of the non-formal sectors and was given analytical prominence by Arthur Lewis in his analysis of the implications for growth and development of an underdeveloped country being transformed by capitalism and the market (Lewis, 1954).

The approach proposed by Lewis, and later elaborated by many others, attempts to demonstrate two issues that have been underplayed in the conventional analysis of the African crisis. First, it attempts to demonstrate the requirements for a capitalist growth process that can lead to the transformation of non-productive labour processes into productive ones driven by capitalist imperatives. Second, it attempts to show how, under certain conditions, the majority of the labour force may be relegated to a self-reproducing and self-reinforcing destiny of underemployment in the context of an enclave and dynamic capitalist economy. These aspects of the problem will be elaborated on below.

In summary, then, two aspects of underemployment pose a problem for a developing country. The first relates to the fact that the majority of the labour force is trapped in pre-capitalist forms of production, which are by their nature not driven by the incessant capitalist need to employ labour for the sake of profit and further expansion of capital. The second aspect concerns the fact that underemployment represents low levels of productivity relative to what could be obtained if labour were captured under work processes driven by the capitalist market imperative. While these two aspects are indeed interrelated and imply each other, it is important to appreciate their implications, which are often glossed over in current preoccupations with stabilisation-driven policy measures. Underemployment as defined by pre-capitalist forms of production is a social relation that requires both economic and non-economic agents and factors for its transformation and resolution. This is a political economy issue that market forces alone cannot resolve. It relates to how a pre-capitalist social formation rearranges its social relations to accommodate capitalism, an eventuality that is often tumultuous at the political, social and economic levels and rarely involves the type of marginal changes often assumed by economists (World Bank, 1994). Underemployment as a technical issue, which relates to the nature of marginal and average productivities of labour, requires an appreciation of factors that underpin the low levels of productivity. It raises the question as to whether market forces on their own can resolve such constraints. This essay, while by no means downplaying the political economy issue, focuses mainly on the technical dimensions of the problem of underemployment.

## 3. Enclavity

Paul Baran was perhaps one of the earliest analysts to call attention to the fact that developing countries that had been colonised had inherited a special type of social formation in which the capitalist sector of the economy was grafted onto pre-capitalist forms of production in a manner that was distorted (Baran, 1957). In particular, he argued that this type of capitalism did not possess its own imperative for dynamic transformation and development since it was essentially dependent on and constrained by external factors. Implicit in Baran's argument was the contention that, in the absence of an internally motivated conscious process of transformation, the growth process within an unfettered domestic and international market process would not only marginalise the majority of the labour force, but would also marginalise the developing country itself in the international arena. Baran's thesis spawned a substantial Marxist literature (Banerjee, 1985; Clarkson, 1978) on the phenomenon of underdevelopment and dependency, which, with the demise of the Socialist Bloc, has become obsolete even if still relevant.

In another vein, and at about the same time as Baran, Lewis advanced his approach to what he referred to as enclave development and growth based on the exploitation of underemployed labour. Lewis borrowed freely from classical political economists such as Marx, Ricardo and Malthus to elaborate an approach he regarded as more relevant to the unique situation of developing countries which had inherited a capitalism that had been grafted onto their societies from external sources rather than internal ones. In effect, Lewis was making the same argument as Baran, although from within conventional economics, as opposed to the avowedly Marxist perspective of Baran. It is important to distinguish the approach by Baran and Lewis from that of the dependency school, whether of the Marxist, Prebisch, or the New International Division of Labour variety (Ernst, 1980, 1981; Frobel et al., 1978). The dependency school tended to concentrate on the manner in which global forces marginalised and peripheralised developing countries that had been colonised and were latecomers to the global arena. In this respect, it stressed the unequal consequences of interactions between developing and developed countries with respect to trade, aid and foreign investment flows. It however paid little attention to the elaboration of actual circumstances prevailing in the developing countries themselves and their internal structural constraints to equitable or more inclusive growth.

The superiority of the approaches of Baran and Lewis lay, first, in elaborating the nature of internal constraints to market-led growth given the presence of high levels of underemployment in a social formation dominated but not completely captured by capitalism; and second, in demonstrating the interactive nature of external and internal factors in perpetuating the predicament of these countries in the absence of specific interventions. Lewis's approach in this respect is instructive.

Now, while market exchange may be found in non-capitalist or pre-capitalist social formations, the defining feature of capitalism is the capital-labour relationship in which labour is commoditised to propel the continuous expansion of capital in the context of market exchange which encompasses factors of production as well as goods and services. In Africa, capitalism as a mode of production was grafted onto primarily subsistence forms of production organised along communal lines. It did not arise through the transformation of subsistence agriculture and the simultaneous emergence of a capitalist form of production in industry and the "commodification" of almost all of the active population, except perhaps housewives. It emerged without the need to transform agriculture and industry and without the need to "commodify" the active population, the majority of which remains outside the sphere of influence of capitalist relations of production.

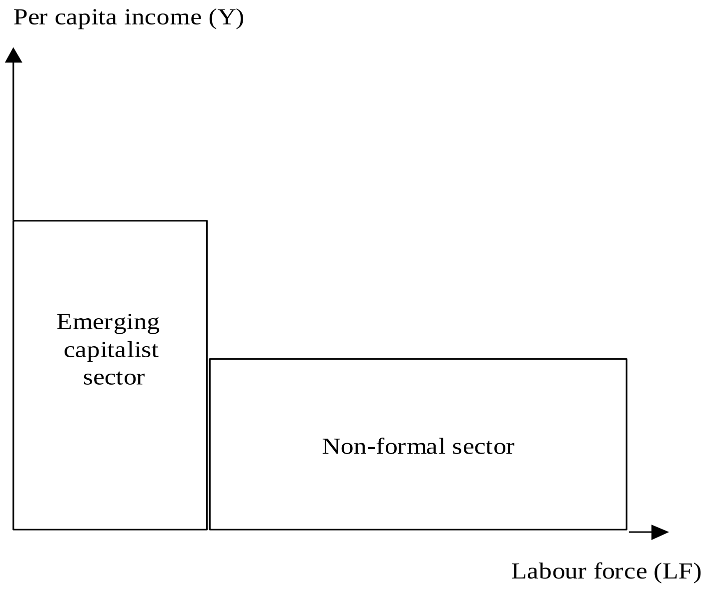
This incomplete subordination of non-capitalist forms of production by capitalism is manifested in what may be regarded as an economic dualism, not so much in the sense that Boeke (1953) defined it, but in the technical sense of a coexistence of two interrelated segments of the labour force: a minority engaged in dynamic activities propelled by the capitalist imperative for accumulation, and a majority trapped in low-productivity non-capitalist forms of production that are static from the standpoint of accumulation. The capitalist sector, which we shall label as the formal sector, exists as an enclave in a sea of underemployment, or the non-formal sector. This economic dualism is not so much characterised by separateness as by interrelationship and mutual determination, as will be seen below. The problem is that this interrelated coexistence presages a vicious circle of proneness to economic stagnation and the marginalisation of the majority rather than a virtuous circle of dynamic transformation as occurred in the now-developed countries. The transformation process referred to here for industrial countries is relevant to countries that are populated by fairly large indigenous populations. It does not neatly fit the growth process of countries that are relatively small, such as Hong Kong and Singapore, or vast but originally sparsely populated by indigenous groups, such as the United States of America or Australia where capitalism was brought in by immigrant groups.

The notion of economic dualism as explained above implies the following assumptions regarding the nature of the prevailing situation:

- that labour supply to the formal sector of the economy is rather elastic and can be had at fairly low wages set by the level of subsistence income plus a premium to reflect other factors and considerations;
- that capital is the relatively scarce factor of production; and
- that while external markets may be unlimited for an individual country, domestic markets are limited by the fact that the majority of the labour force is non-productive.

Figure 1 shows the initial stage of development of a dual economy, with an emerging capitalist sector as the formal sector and the subsistence sector as its non-formal part. It is assumed that the formal sector is the dynamic part of the economy, hiring labour to make profit, and that the non-formal sector is the static part with a given income equivalent to the production in kind which is all consumed. In the capitalist part of the economy labour is hired on the basis of its marginal productivity, and the higher income in this sector is in part a result of this higher productivity. The higher wage rate also reflects a premium required to accommodate the transition costs and the high cost of living in the formal sector.

**Figure 1: Development of a dual economy: The initial stage**




The supply of labour from the subsistence sector to the formal sector can be assumed to be initially quite elastic such that much of the surplus labour can be absorbed at a wage rate that is much lower than the marginal productivity of this labour in the formal sector. It may be noted here that the marginal productivity of labour in the subsistence sector need not be zero, but low relative to the marginal productivity of this same labour when employed in the formal sector where it is deployed in combination with capital. The differential between the subsistence income and the wage in the formal sector, and by the same token between the productivity in the formal and non-formal sectors, becomes the basis for further accumulation in the formal sector. Now, this is a situation that may be assumed to have existed at the initial inception of capitalism in formerly colonised countries. The manner in which the accumulation proceeds, and the manner in which the enclavity might be perpetuated as the two sectors interact, are best appreciated when a distinction is made between the closed and open versions of this type of an economy.

In accordance with Lewis, and modifying his classification somewhat to capture the situation in Southern Africa, we may distinguish between four possible ways in which the formal and non-formal sectors may be interrelated in an enclave economy:

1. The first type or model is a closed enclave economy in which the formal sector does not trade with the non-formal sector even if it hires labour from it.
2. The second is also a closed enclave economy but one in which the formal sector does trade with the non-formal sector while also hiring labour from it.
3. The third type is an open variation of the first one above implying that the formal sector does not trade with the non-formal sector internally but trades with the outside world externally.
4. Finally, the last type is an open version of the second type in which the formal sector trades with the non-formal sector internally and with the outside world externally.

### 3.1 The closed enclave economy: Models 1 and 2

As noted above, we distinguish between two types of closed economies: one in which the subsistence sector does not trade with the formal sector except in so far as it exports labour to it, and another in which the formal and non-formal sectors trade. For both types it is assumed that the supply of labour to the formal sector is elastic at the given subsistence income.

There is a mutual interest in the interaction of the two sectors since (a) from the standpoint of the formal sector the non-formal sector represents a pool of under-utilised cheap labour, and (b) from the standpoint of the non-formal sector there are higher returns to labour to be acquired in the formal sector. Assuming that these tendencies are strong in both sectors, labour will be absorbed at a constant wage into the formal sector where its contribution to output is much higher than the wage paid by the entrepreneur. The surplus profits acquired in the process can be used to hire more labour from the non-formal sector. In addition, the increased pool of employees will begin to increase the effective demand for wage goods produced in the formal sector, thereby encouraging further growth of manufacturing. This process will continue until the surplus labour is exhausted or, more generally, until the opportunity cost of releasing labour from the non-formal sector begins to increase such that it becomes necessary to increase the formal sector wage in order to attract more labour from the non-formal sector.

In the non-formal sector, if there is a reorganisation of work to take advantage of the excess land left by those leaving the sector, average productivity and consumption will rise, especially if the sector was over-populated initially. However, as was common in Southern Africa, the exit of adult males form the non-formal sector places severe strains on the subsistence sector since the marginal productivity of labour in this sector was rarely zero or negative, as was presumably the case in more densely populated areas such as Asia. The increase in the average consumption of the non-formal sector population compels entrepreneurs in the formal sector to increase their wage, which in the absence of innovation in this sector will begin to squeeze profits. Thus a point will be reached when it is no longer profitable to release labour from the non-formal sector and when the reservation wage in the formal sector becomes so high that it discourages the absorption of more labour from the non-formal sector.

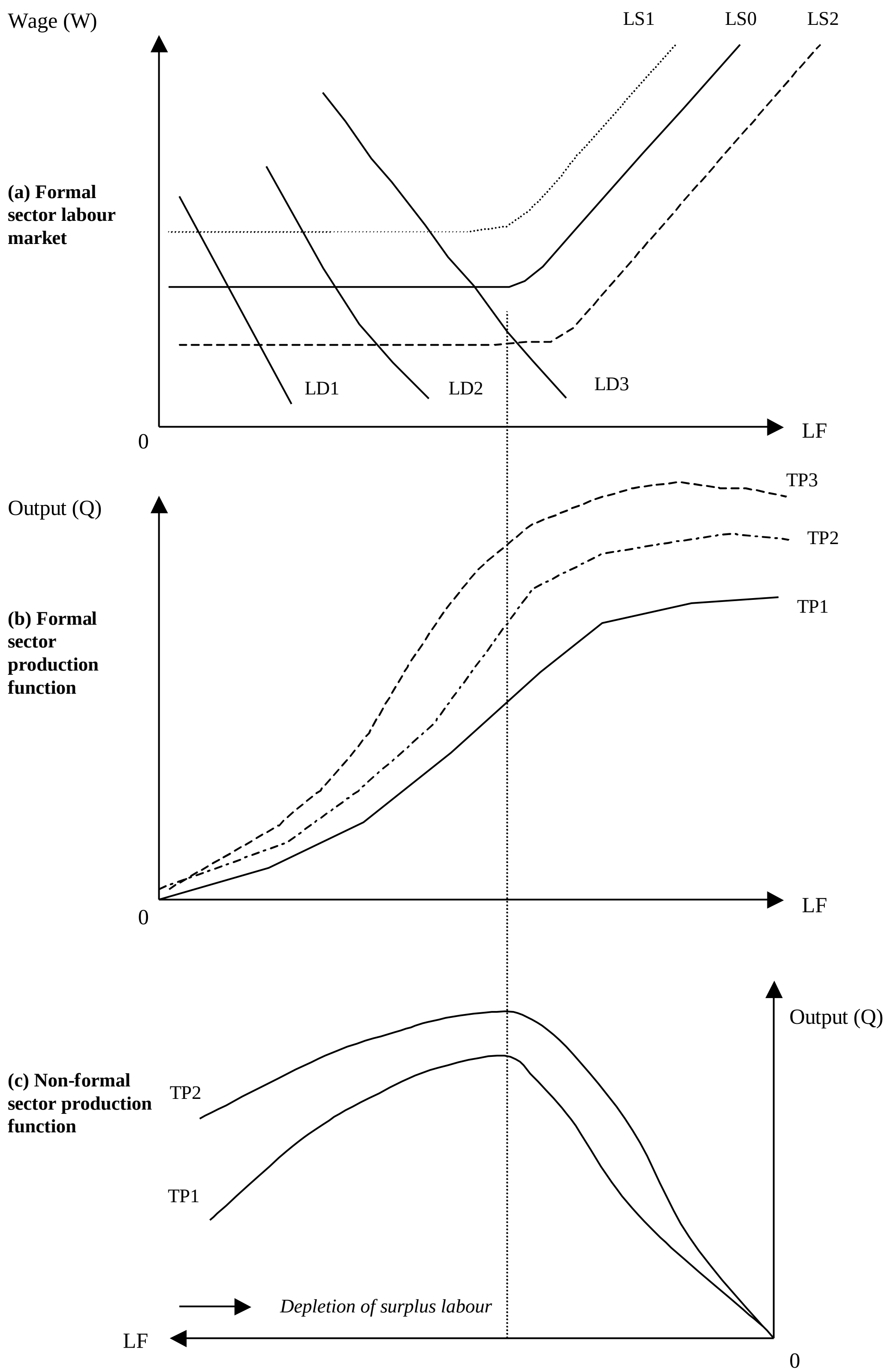
In order to analyse these issues more formally, Figure 2 shows the process of dynamic transformation of the closed enclave economy into a full-fledged capitalist economy that embraces all of the labour force. It is assumed that the formal sector — consisting of primary, secondary and tertiary activities — employs labour for profit, relies on reproducible capital, is innovation-driven and has higher average productivity per worker. The growth process might proceed along the lines elaborated by Fei and Ranis (1964) whereby the cheap surplus labour from the non-formal sector triggers the process of dynamic accumulation. Labour is absorbed into the formal sector at a constant wage tied to subsistence income in the non-formal sector. In the formal sector, the employed labour allows for unusually high rates of surplus or profit which are reinvested resulting in further increase in demand for surplus labour and propelling further expansion in the formal sector. Hence the demand for labour in the formal sector shifts to the right along the elastic supply curve of labour. In doing so, productivity in the formal sector rises as the production function shifts upward.

The nature of the interaction ensuing between the two sectors is illustrated in Figure 2(a) in which LS0 is the original supply of labour from the non-formal sector to the formal sector, and LD1 to LD3 represent the shifting demand for labour in the formal sector with the corresponding amounts of labour employed in this sector indicated on the horizontal axis at the bottom. Initially, the tendency will be for the absorption of labour to proceed along LS0 while the demand for labour shifts form LD1 to LD3. Beyond LD3 the supply of surplus labour is exhausted so that any increase in labour absorption will have to be compensated with a higher return along the upward sloping supply curve of labour from the non-formal sector. From that point onwards, increased employment will have to be driven by increased productivity. Figure 2(b) shows that the average product of labour in the formal sector will be increasing along the total product function as labour is absorbed out of the non-formal sector. Figure 2(c) shows the manner is which the total product function of the non-formal sector will be shifting upward as the interaction of the two sectors proceeds.

Now, as labour is removed form the non-formal sector, two possible eventualities might arise.

The first concerns a situation where some reorganisation in the non-formal sector will result in increases in average productivity for those remaining, which will translate into an upward shift in the supply curve of labour to the formal sector from LS0 to LS1 in Figure 2(a). This shift implies an increase in the reservation wage of labour to persuade it to engage in formal sector employment. By this very same token the possible amount of surplus labour to be absorbed is now reduced. This situation can also lead to surpluses being generated in the non-formal sector which are then sold to the formal sector. As demand increases in the formal sector for goods supplied by the subsistence sector (e.g. food-stuffs bought by wage workers) the terms of trade might improve in favour of the non-formal sector and against the formal sector. If this occurs, it will further hasten the moment at which it becomes unprofitable to harness labour from the non-formal sector. In this case both the increase in average productivity and surplus production in the non-formal sector act as barriers to the further expansion of the formal sector, and thus to the further absorption of labour by this sector. Thus one type of enclavity will arise in which the formal sector is unable to completely absorb the surplus labour, let alone revamp or transform the non-formal sector, unless there is a technological revolution in both the formal and non-formal sectors. A similar situation actually transpired during the early years of colonial penetration in Southern Africa which led to the resort to extra-market measures to compel African rural dwellers to offer themselves onto the formal labour market at lower wages than would have otherwise been the case in the absence of such measures. The most fundamental and contentious of these measures were in the form of the appropriation of land from the Africans and their concentration into unsustainable homelands or villages. These measures had the effect of depressing the reservation wage and increasing the supply of labour as in the second situation above.

**Figure 2. The process of dynamic transformation of an enclave economy**




The second eventuality arises when the there is no significant reorganisation in the non-formal (subsistence) sector and it collapses as labour leaves for the formal sector. In this case, the supply curve of labour to the formal sector will shift to the right, thereby increasing the supply of labour to this sector and also extending the range along which surplus labour may be absorbed at a constant wage rate for purposes of surplus generation in the formal sector. This shift may be accentuated by increased labour force participation as the deterioration in living standards forces new entrants into the labour force (for instance children and women). This situation should lead to increased surplus generation in the formal sector and greater dynamic growth with a longer period or range before the exhaustion of surplus labour. Nevertheless, the collapse of the non-formal sector might easily lead to a situation in which the supply of labour to the formal sector is far in excess of the labour that can be absorbed by this sector, thereby resulting in the lateral expansion of the urban informal sector. In particular if the employment created is less than the additions to the labour force, as has generally been the case in Africa, non-formal sector underemployment will continue to increase, and hence the enclavity will continue as well.

If the process as it unfolds does not result in a collapse of the non-formal sector due to a failure to accommodate exits of labour, a number of growth linkages emerge in the economy that further reinforce the integration of the two sectors.

1. The absorption of labour from the non-formal sector results in an increase in incomes of previously redundant and under-utilised labour. The additional incomes can be disaggregated into increases in consumption and savings. The increase in consumption will stimulate demand for wage goods produced in the formal sector thereby propelling further expansion in the formal sector. The increase in savings, if properly mediated by financial institutions, can be channelled into investment funds, which can also lead to further expansion.
2. If there is no reorganisation of production in the non-formal sector to take advantage of the exiting labour force that is redundant the income gap between the formal and non-formal sector will increase further. As a consequence, more surplus labour will be released to the formal sector thereby providing for further expansion on the basis of cheap labour along the lines described above. This is the situation that Model 1 will lead to: dynamic growth based on surplus labour initially from the non-formal rural sector and later from the surplus labour in the urban economy which has been displaced from the rural economy. If there is reorganisation of production in the non-formal sector as redundant labour exits, especially reorganisation along capitalist lines of production, the increased output may be channelled into increased consumption within the non-formal sector, and increased demand for consumer goods and inputs from the formal sector both of which will be stimulated into further growth as a result. In the latter case, however, if the formal sector purchases goods form the transforming non-formal sector as in Model 2, the terms of trade might shift against the formal sector as incomes and prices increase in the non-formal sector relative to those of goods produced in the formal sector. When this approaches as surplus labour is exhausted the two sectors may be seen as integrated since expansion in one will have to take place at the expense of the other. Further growth in the economy will have to be innovation driven and/or rely on export markets.

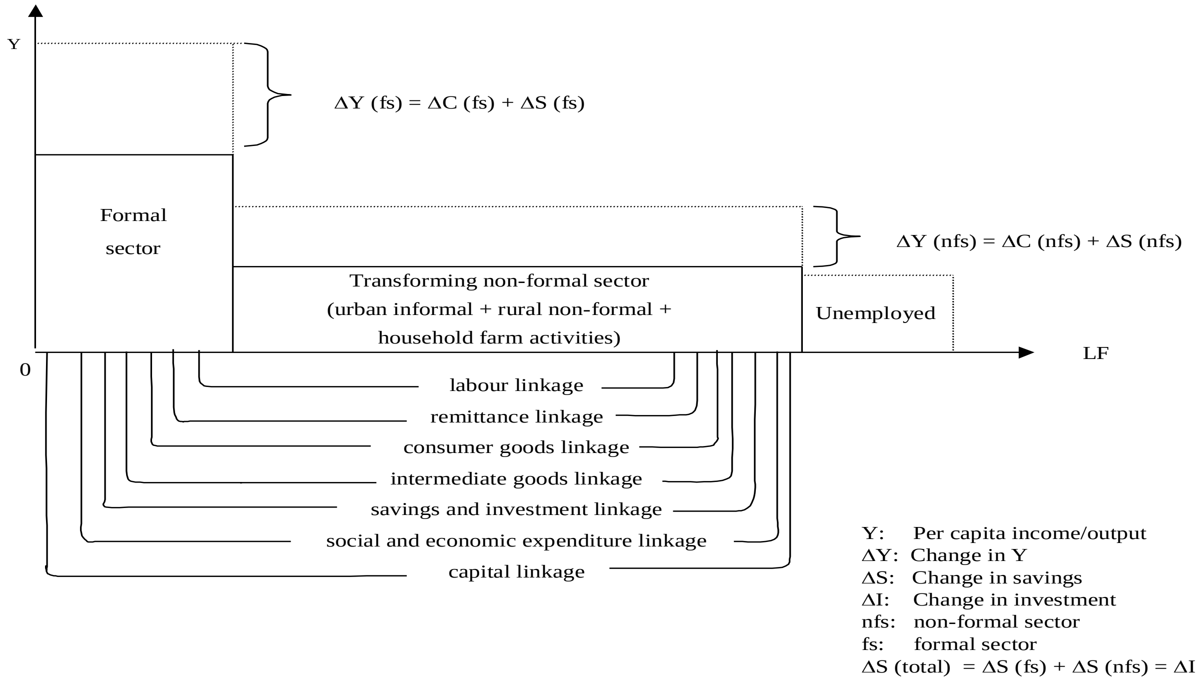
The ideal growth process in a dualistic economy with huge supplies of underemployed labour is thus initially triggered by the circulation of cheap labour, and then sustained by consumption, savings, and input linkages between the two sectors. It should be noted that the growth process that leads to the integration of the economy relates to the lateral and vertical expansion of the formal sector and the shrinking and vertical growth of the non-formal sector.

The crucial requirement is that the lateral absorption of labour in the formal sector be greater than the net additions to the total labour force and that the remaining labour force in the non-formal sector is transformed into productive employment by being absorbed into capitalist forms of production such as commercial agriculture and other rural formal activities. But as Lewis notes, while the formal sector may proceed to grow with minimal intervention by the state, the transformation of the non-formal economy, if it were it to take advantage of the unfolding scenario, requires facilitative interventions from the state such as provision of social and economic services, extension services, and so on. Most important in this respect are regulatory and institutional interventions aimed at the development and formalisation of capitalist relations of production. In the absence of such interventions the non-formal sector might collapse. While such a collapse might appear to be a boon to the formal sector in that it might release further labour surpluses, the resulting growth process within the formal sector might not be fast enough to absorb such labour and open unemployment might result.

In the closed Model 1 scenario, the phenomenon of surplus labour should disappear over time and the economy should be able to move towards full employment in the context of a capitalist market economy. The chances of such a process occurring are greater in an economy that is not too reliant on foreign trade and investment, or that is large enough to have a large internal market. The importance of Lewis's analysis of this process lies not so much in his demonstration of the process of accumulation which unfolds as enclavity is eliminated and the whole economy is subsumed by capitalism and the market, but in his identification of the barriers to this process which might lead to a persistence of the enclavity and dualism since this is what has transpired to be the outcome in much of Africa, in particular Southern Africa.

The ideal situation in a closed economy with surplus labour occurs when there is a good propensity for innovation as well as a need by the capitalist class to capture the non-formal sector and transform it accordingly, implying a political need to commoditise the non-formal sector (as happened in the industrial revolutions of Europe and Japan for instance). Prior to their outward orientation, the newly industrialised countries (NICs) pursued a similar strategy led by the state. Under these conditions the resulting linkages between the formal and non-formal sectors may be depicted as in Figure 3. The surplus generated by the utilisation of the surplus labour kick-starts a process of accumulation and growth that encompasses both the industrial and agricultural sectors in a manner that undermines the residualness of the non-formal sector. Note that in this scenario surplus is generated in both the formal sector and the transforming non-formal sector. Hence, a virtuous cycle of linkages arises on a number of fronts. First, the increased labour absorption creates the effective demand for industrial goods thereby fuelling industrial expansion. Second, if the surplus in the non-formal sector can be translated into demand for industrial consumer, intermediate and capital goods, this will further propel growth in both sectors. Third, if the savings in the non-formal sector are properly mediated they can be used for investment purposes in both the formal and non-formal sectors, thereby further expanding the productive base of the economy and by the same token its labour absorptive capacity. Finally, as a consequence of all these interactions it can be expected that the revenue base of the state will increase thereby allowing it to invest in economic and social infrastructure to further underpin growth. Thus a virtuous cycle of interactions is precipitated that allows for the lateral and vertical growth of both the formal and non-formal sectors yielding a more inclusive growth path.

**Figure 3. Transforming the closed enclave economy: The ideal model**




The initial simultaneous transformation of the formal and non-formal sectors captures the majority of the labour force into productive employment so that the residual underemployment and open unemployment only affects a minor proportion of the labour force. It also lessens the amount of growth in output and investment required to reduce this residual portion since it is now smaller. Thus marginal rates of growth in the larger part of the economy in which the majority is now absorbed can in due course eliminate the non-formal employment or reduce it to a natural rate of unemployment and underemployment. It should be emphasised that this whole process in a closed economy is endogenously propelled, that is, the accumulation imperative is internal to the economy and does not depend primarily on external stimulation through outward orientation, which in this ideal environment will merely give further impetus to an endogenously driven process. This is one of the lessons to be learned form the experience of the NICs some decades ago.

It is necessary at this stage to comment on the stages through which such a closed economy might develop as it integrates. It should be noted that the assumption of a closed economy is only used as an analytical convenience to highlight the key linkages that trigger and accompany the process of integration. In the real world the assumption is approximated by those countries for which the dependency on external trade is relatively low as a proportion of gross domestic product (GDP). For such economies the key stages of growth and development as the migration process unfolds over the years may take the forms identified by Porter (1990) as follows (see Figure 4):

1. The initial stage may be driven by the primary activities of the formal sector such as agriculture and mining within which the initial surplus labour may be absorbed. At this stage the greater proportion of GDP, productive employment and the labour force

is accounted for by primary activities in the formal sector (Figure 4(a)). This is an important stage since it sets the stage for the absorption of the majority of the labour force into productive employment, thus making future growth and development more inclusive.

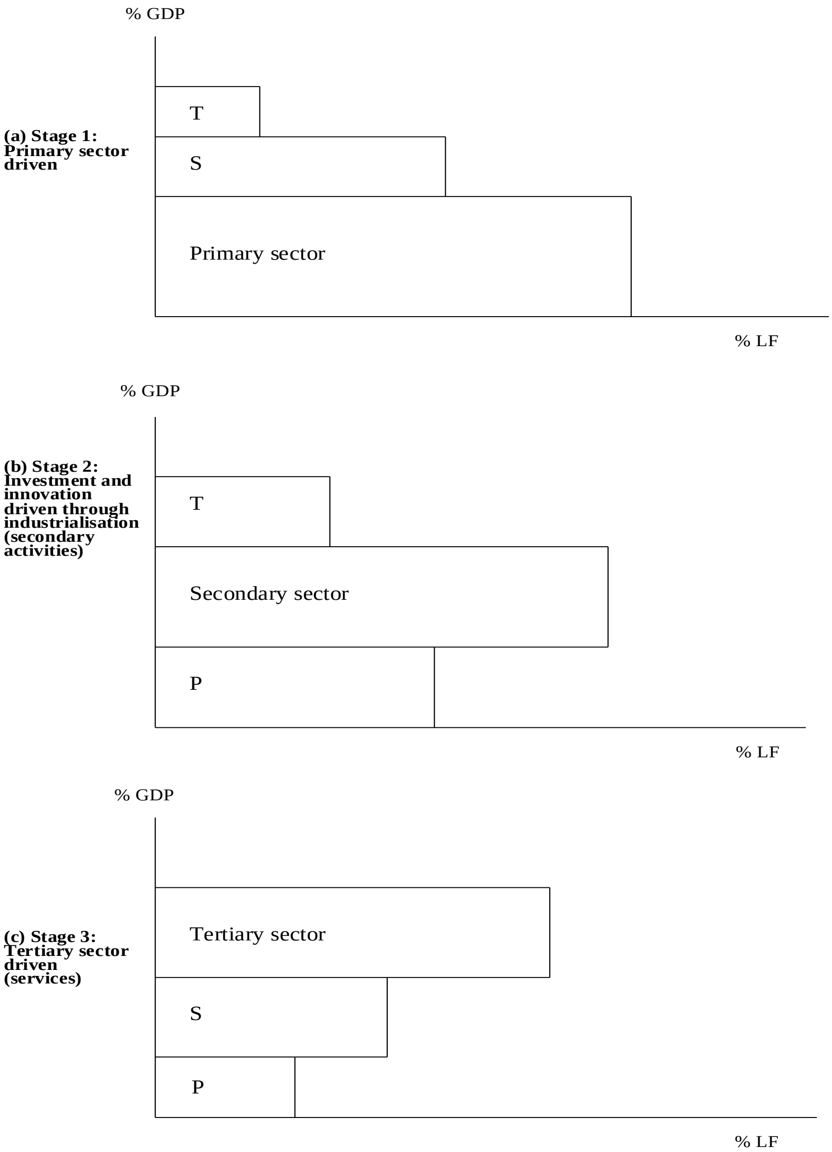
2. The second stage arises as productivity in the formal sector and the hitherto non-formal sector increases, and industrialisation occurs reinforced by rising incomes. This stage entails the expansion of the secondary sector based on the production of consumer, intermediate and capital goods (Figure 4(b)). The secondary sector becomes the engine of growth at this stage in the development of the economy. Unlike the first stage, which is driven by the process of primary accumulation through the conversion of an agricultural surplus (in the form of rural surplus labour, surplus agricultural production and surplus savings), the second stage is innovation and investment driven. This second stage sees secondary industry absorbing the greater proportion of formal employment.
3. In the third stage tertiary production begins to predominate accounting for a greater proportion of the GDP and formal sector employment (Figure 4(c)). This stage tends to be both innovation and wealth driven.

These stages are not only important for heuristic purposes, but they also demonstrate a natural progression in growth and development that has been undertaken by countries that have had inclusive processes as opposed to exclusive ones based on enclavity. Unfortunately this ideal situation either occurs through industrial and social revolutions as happened in Europe and Japan, or through the conscious intervention of the state as happened in the newly industrialising countries. In Africa, this situation was approximated by the settler economies somewhat when they embarked on inward looking policies. Their approach was, however, compromised by their need to marginalise the majority in the process, hence the continued enclavity. Nevertheless, the situation in Africa and in Southern Africa, where economic dualism and enclavity have been perpetuated, is not only suggested by the scenarios discussed earlier in which the process becomes self-constraining as shown in Figure 2 within the perspective of the closed economy, but is further reinforced by the introduction of openness into the model.

It should be noted that on the supply side the shift is determined by changes in productivity and on the demand side by changing income elasticities of demand in favour of secondary and tertiary consumption as incomes rise. As will be seen below, when an enclave economy is relatively open not only is the enclavity perpetuated and the ability to integrate compromised in the absence of countervailing interventions, but the growth process of the enclave becomes distorted in that it tends to skip the second stage in terms of the composition of output while the majority of labour force is still underemployed. It is this bastardised form of development that has sometimes been referred to as the hypertrophy (or 'obesity') of the tertiary sector, i.e. the premature and disproportionate expansion of the tertiary sector before the first two labour absorbing stages of development have been exploited and exhausted. The nature of the problem becomes clear once the barriers to this ideal transformation are considered within the context of an open economy, that is when we consider the implications of Models 3 and 4 of the enclave economy which are closer to the real world in Southern Africa.

**Figure 4. Stages in dynamic transformation**

Even in the context of a closed economy, the potential barriers to integrated growth and development relate to possible constraints to the efficient realisation of the linkages outlined above. There is, first, with regard to the linkage related to the absorption of underemployed labour, the possibility that the wage rate in the formal sector may rise at a rate that throttles




profitability in this sector. This may be a result of the premium of the formal sector wage above the subsistence wage increasing due to increased costs of transferring labour from the non-formal to the formal sector; it may be due to an increase in the opportunity cost of releasing labour from the non-formal sector in the absence of accommodating changes in work organisation in this sector; it may be due to increasing average productivity in the non-formal sector; it may be due to an increase in unionisation in the formal sector; or it may be due to an increase in remittances form the formal to the non-formal sector. All of the foregoing will result in an increase in the reservation wage for unskilled labour, as represented in Figure 2(a) by an upward shift in the horizontal portion of the supply curve of labour to the formal sector, and a slower shift to the right in the demand for labour than would otherwise be the case in the absence of the increase. These tendencies result in a slower rate of labour absorption by the formal sector from the non-formal sector.

Thus unless there are technology-driven increases in productivity in both the formal and non-formal sectors as the transition proceeds, or there are huge increases in capital inflows to further propel the transition, there is a built-in tendency in the closed system for receding growth or stagnating. The above barriers could easily lead to a situation in which the economy gets trapped in a low-income, quasi-stable equilibrium trap at less than full employment, and with still high levels of open unemployment and underemployment along the lines suggested by Hirschman (1958). In this position formal sector expansion is constrained by a lack of effective demand in the economy as a whole and by a seeming lack of profitable investment opportunities in the non-formal sector. In its totality this situation also results in low levels of internal accumulation or generation of savings and investment funds. Thus we have an economy in a low-income, quasi-stable equilibrium trap with low levels of internal effective demand, savings and investment funds, but with surplus labour in form of open unemployment and underemployment in the non-formal sector. It should be noted that market forces on their own lead to the foregoing situation in the absence of any extra-market interventions by the state within the context of a closed economy.

The question that arises next is what happens when the economy is open. From what has been indicated above it is clear that factors that sustain the low-income, quasi-stable equilibrium trap in a closed economy situation are the very factors that compel the economy to resort to the international economy to escape the constraints. Thus the lack of internal effective demand immediately translates into the need to exploit outside markets through export promotion; the tendency toward inadequate internal savings and investment funds reasserts itself as the need for foreign capital (whether in the form of private investment or foreign aid); and the surplus labour continues to exist as a potentially exploitable resource for both export promotion and foreign investment. The need to export in the face of stunted growth and an underdeveloped secondary sector gives rise to the need to import capital and intermediate goods. In addition investment for purposes of producing for the domestic market is constrained by the low level of effective demand in the economy so that it has to be directed toward producing for export as well, while also relying on the importation of capital goods, intermediate goods and technology.

The roots of external dependency should now become apparent: partly, it is a consequence of the inability of a labour surplus economy to accumulate, and partly it is a consequence of a realisation problem, that is the inability to find effective internal markets. The introduction of openness does not however resolve the issues satisfactorily, as both Lewis and Baran were quick to point out. Openness, depending on the circumstances, might either ameliorate or exacerbate the problem of the low-income, quasi-stable equilibrium trap in the absence of other interventions. For small, labour-surplus economies huge inflows of foreign capital or the emergence of sustainably lucrative export markets might be enough to absorb surplus labour such that the labour market becomes tight or approaches full employment. This might be facilitated by the discovery of resource bonanzas with high demand on the export market, the unprecedented inflow of foreign investment wishing to take advantage of particular circumstances in the global positioning of the economy, and so on. As Lewis notes, for large labour-surplus economies, external vents for the problems faced can only bring about marginal benefits since the labour absorption needs are so large that huge increases in production for export and foreign investment would be needed to begin to absorb net increases to the labour force, let alone the existing unemployed and underemployed labour in the non-formal sectors.

It is at this stage of the analysis that the approach to underdevelopment that Baran and Lewis utilise converges with that of the dependency school analysts. While the latter attribute the low-income, quasi-stable equilibrium trap and its perpetuation to external factors, the former analysts, including Samir Amin from the Marxist perspective, would argue that it is the interactions of internal structural factors and the external factors that perpetuate underdevelopment. Both schools agree that for large labour surplus economies external economic relations are not likely to resolve the fundamental problem confronted by these countries.

## 3.2 The open enclave economy: Models 3 and 4

The introduction of openness in the model of enclavity poses some fundamental barriers to the elimination of enclavity and dualism. What lurk as potential barriers to the model when closed become real barriers to the elimination of enclavity in an open economy. The reader is reminded that the issue here does not as yet concern the nature of the policies pursued by the state itself in facilitating or constraining growth through market processes. That is, there are no policy-induced distortions but merely structural constraints, which are accidents of history in the internal relationship within an enclave economy and its relationship to the outside world.

Now, in the real world there are not only many enclave developing countries, but also a large external market for the exportation and importation of commodities and capital. The openness presents both opportunities and constraints for the growth and development of an enclave economy. The problem needs to be posed afresh here. There is now a major difference between having an enabling environment for the growth of the enclave formal sector on the one hand, and having an enabling environment for the virtuous integration of the formal and non-formal sectors of the enclave economy on the other. This difference becomes more apparent once the barriers to the growth of the enclave economy are considered.

It was indicated earlier that in the face of a collapsing non-formal sector or of an increase in labour's reservation wage, the absorption of labour from the non-formal sector eventually runs into a barrier, thereby sustaining enclavity. In the former case, this is reflected in the rise of open unemployment and underemployment in the urban sector of the economy closer to the formal sector. As the non-formal sector becomes non-viable, the underemployment is translated into urban unemployment and underemployment, which cannot be resolved by the slow rate of labour absorption in the formal sector. In the second case, where the reservation wage increases with or without trade between the two sectors, this very eventuality throttles off accumulation eventually unless extra-market measures are used to deflate the wage. However, given these possible eventualities, the enclave part of the economy may be saved from atrophy through the introduction of openness into model.

With the introduction of openness the economy is able to escape the internal barriers to growth by resorting to the external market for investment funds, investment opportunities, effective demand and innovation, without requiring the growth process to be inclusive and integrative of the non-formal sector. The higher reservation wage compels the enclave part of the economy to resort to capital-intensive forms of production based on imported technology and capital. In the case of the depressed non-formal sector, which in turn depresses effective demand, the export market may be exploited to fill in the gap. The absence of investment opportunities internally compels the export of capital. And the inadequacy of internal savings is resolved by resorting to foreign capital inflows. The external sector acts as a vent for surplus production and savings from the enclave formal sector and serves as a source of foreign investment.

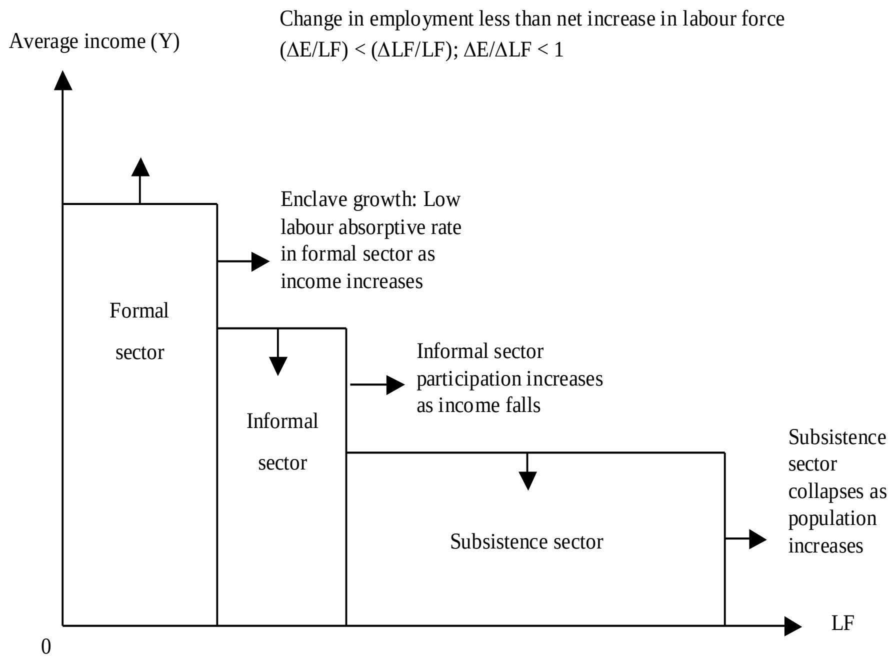
Essentially, the formal sector is able to sustain growth of sorts without the need to transform the non-formal sector and in the presence of open unemployment and underemployment in the economy. The low absorptive capacity of the economy results partly from the tendency toward capital intensive methods of production induced by the increasing reservation wage, and partly from the fact that the formal sector resorts to technology and capital imports that are primarily suited to economies with scarce labour. The technology and capital imports in the enclave economy are of the 'clay-clay' (as opposed to the 'putty-putty' or 'putty-clay') variety, implying that factor combinations cannot be readily modified to suit local resource endowments. As a consequence, the employment elasticities with respect to output and investment are generally too low to absorb net increases to the labour force, let alone cure the structural underemployment that already exists. The resulting growth of the economy is akin to that illustrated in Figure 5.

Thus the enclave formal sector begins to evolve a growth momentum of its own that is relatively unrelated to the existing underemployment, which is seen as irrelevant, but is intimately connected to the external sector, which is seen as critically essential for its own growth. Meanwhile the non-formal sectors will tend toward lateral expansion and involution in a degenerative sense. It is not surprising therefore that such an economy easily shifts to the third stage, not having exhausted the first and second stages of development indicated in Figure 4. It is within this context that the foreign exchange and debt traps can be understood, and the misplaced preoccupation with foreign investment and export promotion as the presumed panaceas for the growth and labour absorption problems can be appreciated.

Essentially, openness accentuates the enclavity, and by the same token the marginalisation of the non-formal sector. In the context of openness, the formal sector begins to have a momentum of its own quite independent of the non-formal sector, which now becomes economically irrelevant. The economic flows of the formal sector and the external world become mutually sustaining and reinforcing of enclavity. First, it becomes necessary to specialise in those goods that fit into the international division of labour, which in the case of many developing countries has initially meant specialisation in those primary products that are often produced by the formal sector and only in exceptional circumstances by the non-formal sector of the economy. Now such goods are prone to the usual terms of trade problems and the consequent unequal exchange between developed and developing countries. Second, the absence of economies of scale in the production of capital, intermediate and durable consumer goods results in a dependency on imports, for which exports are needed. Thus the internal imperative for efficient import substitution as a basis for the growth of a secondary sector is obviated, but so is the ability to compete in the export of industrial goods given the external barriers to imports in industrial countries that UNCTAD has called attention to on numerous occasions. Third, there is only so much foreign capital to go around so that there is generally competition among developing countries for such funds and they can never be enough to resolve the internal structural problems of developing countries as a whole. Thus, while foreign investors can choose, developing countries wishing such capital have to compete by providing adequate incentives to prospective investors. Generally, if a developing country does not take pro-active steps to modify its internal economy and its position in the international division of labour automatic, market forces will tend to reinforce its internal dualism and external dependency, and trade, aid and foreign investment will tend to be facilitators of such as situation.

**Figure 5. The growth process of a typical enclave economy**

This paper does not intend to discuss the debate over the nature of the exchange between developing and developed countries. The point to be noted here is that, for a large labour surplus economy, the existence of external markets and foreign capital may not act as panacea for the structural problems posed by enclavity solely by virtue of the very nature and magnitude of these problems. This point is deliberately made at this stage in the analysis, before introducing the problems associated with economic reforms, to underscore the




commonality of the problems of many developing countries, particularly those in Africa. It is only in this manner perhaps that the nature of continued underdevelopment in the context of openness during the colonial eras of developing countries can be explained. It is of course true that the developed countries did not go out of their way to make the international environment more conducive to the growth of developing countries in a manner that would enable them compete with the industrial countries. The main point to be made here, however, is that market forces at domestic and international levels are not adequate to resolve the problems of dualism, enclavity and the low-income, quasi-stable equilibrium trap that these structural attributes entail.

## 4. The post-independence conflation in Southern Africa

As indicated earlier, the advantage of Lewis's analysis of labour surplus economies and the paradigm of enclavity is that it demonstrates at a purely conceptual level that market forces on their own are unlikely to resolve the problems of economic dualism. They will rather lead most likely to a low-income, quasi-stable equilibrium trap which would structurally underpin open unemployment and underemployment in a latecomer developing country under both closed and open scenarios. Such a conclusion does not by any means imply that the situation is a hopeless one. It does imply, however, that more innovative measures are required than merely ensuring that there is a good enabling environment for the operation of domestic and international market forces. But before addressing the policy implications of this approach to the analysis of the problematique of underdevelopment it is necessary to advance the argument further by demonstrating how policy induced developments have actually reinforced the proclivity towards economic dualism and enclave growth and development which was essentially sustained by colonial relations of domination and subjugation.

During the colonial era external interests were paramount and only coincidentally or peripherally aimed at the development of the colonised economies. Now, even after some three or four decades of autonomous rule, these countries are still plagued by enclavity and pervasive open and hidden unemployment, particularly in the non-formal sectors of their economies. The conventional wisdom in the policy arena is that this continued crisis in African economies has primarily been a result of statist, interventionist or inward-looking policies pursued by various ruling elites in Africa. The unsustainability of the policies in Africa was exposed in the mid-1970s when the international economy was plunged into a recession. By the early 1980s, a policy consensus began to emerge that outward orientation and liberalisation of domestic economies were the solutions to the problems confronted by African economies, hence the now ubiquitous economic reform programmes embraced by almost every African country, which are propagated and supervised by the World Bank (1981, 1990, 1994) and the International Monetary Fund.

The issue of enclavity and economic dualism, and its concomitant low labour absorption rate, raises at least two issues. The first relates to the need to demonstrate, in a very general and conceptual way, how the problems inherited from the colonial period have been perpetuated and accentuated. The second issue is whether, given the manner in which enclavity has been compounded by post-independence policies of omission and commission, economic reform measures would be adequate in resolving the problems associated with enclavity. This section addresses the first issue.

While all of the countries in Southern Africa can be said to have enclave and dualistic economies, the country economic structures and their economic experiences can be classified into a number of categories for convenience of generalisation and analysis. All of them face severe problems of open and hidden unemployment especially concentrated in their non-formal sectors. They all, in addition, have very low labour absorption rates in the formal sector. Essentially, over and above the problems an enclave economy faces, as discussed in the previous section, policy induced biases have further exacerbated them. In this respect, it is possible to categorise these countries into a number of groups, which are not necessarily mutually exclusive since a given country may have characteristics that allow it to straddle more than one category.

It is important at the outset to comment on the common policy biases that reinforce enclavity. It will be recalled that the analysis of the closed and open models of enclavity was meant to show that such enclavity would arise and be sustained through unimpeded domestic and international market forces in the absence of structural interventions to redefine the structure of the economy. This process has historically been reinforced by a number of policy developments common to many developing countries. First, regardless of their ideological persuasions, the ruling elites of African countries have been convinced that the inherited formal sector is the engine of growth and development. Second, they have also been convinced of the importance of nurturing the growth of exports as the basis for financing their importation of capital, intermediate and final goods, which are seen to be absolutely essential in sustaining the viability of the formal sector. The export bias has generally been in favour of primary exports. Third, they have relied on foreign investment and aid as the major source of capital for their economies. In short, they have uncritically embraced the enclavity of their economies in the belief that the growth of the formal sector will, through trickle-down effects and lateral expansion, eat away at the open unemployment and underemployment in the non-formal sectors. In this respect, any policy initiatives to promote productive activities in the non-formal sectors have come in the context of the enclave models with the formal sector as the dynamic driving engine of growth.

This paradigmatic, uncritical stance vis-à-vis the dual economy is important in that the deliberate formal sector bias that almost all policies have had, while predicated on facilitating the dynamic growth of the formal sector and by assumption of the economy as a whole, has had the inadvertent effect of reinforcing the enclavity and low labour absorption capacity of these economies. Now, it is true that many a development plan of the early years of independence elaborately articulated the need for balanced growth through agrarian transformation and industrialisation in a manner that would resolve the problem of enclavity as discussed earlier. But many such grand plans for both 'market' and 'socialist' oriented states remained as mere intentions that were never implemented. Effectively, most policies were aimed at creating an enabling environment for the formal sector in its enclavity to expand. The main policy biases in this respect were the following:

1. Regulatory policies that gave the legal advantage to large-scale firms in the formal sector with respect to accessing finance and various government benefits such as subsidies, export markets and services, including the regulation of prices and markets;
2. Government expenditure policies that effectively subsidised large-scale and capital-intensive firms;
3. Various explicit and implicit subsidies that cheapened the relative cost of capital through skewed tariff and customs policies, credit provision, foreign exchange policies, education and training policies, research and development policies, provision of utilities, transport infrastructure, storage facilities, and so on.
4. And in some countries labour market outcomes which reinforced the tendency toward capital intensity, either as a consequence of union action or government regulation.

The overall effect of such policies was to impart a bias in the economy in favour of large-scale firms, capital-intensive activities, the urban sector, and more generally the formal sector. By the same token, this policy environment tended to act against the evolution of small-scale and rural activities, labour-intensive activities and more generally the transformation of the non-formal sector. Such policy biases imparted a stagflationary bias to the economies. Among the major outcomes that had important implications for labour absorption were the following:

1. The tendency toward low employment elasticities with respect to output and investment. In most countries in Southern Africa the elasticities of employment with respect to output are less than 1 such that growth rates of over 5 per cent per annum are generally needed to absorb net increases to the labour force. Thus, with the typical GDP growth rates of less than 5 per cent and population growth rates of about 3 per cent per annum, the nature of the labour absorption problem becomes quite obvious.
2. The tendency toward excess capacity given the deficiency in aggregate demand.
3. The fact that small-scale firms and microenterprises have to override enormous barriers to be successful, and often with very little support from the state; and the fact that given the limited labour absorption rates in the formal sector, the non-formal sectors tend to be the last resort for survival. More importantly in this respect is the lateral expansion that results from the ease of entry in such non-formal activities, which tends to depress returns to labour. In addition, non-formal enterprises attempting to engage in productive or formal type activities have to contend with a cost disadvantage since, unlike firms in the formal sector, they lack access to discount facilities with respect to finance, intermediate inputs, capital goods and large markets.
4. The absence of employment opportunities in the formal sector, together with the general state of depression in the non-formal sector, has led to a high degree of 'self-exploitation' among non-formal workers. This is exacerbated by the high degree of saturation in activities undertaken by non-formal workers. The self-exploitation is reflected in the long hours of work for low returns, in the use of child labour and women, who should under normal traditional circumstances be undertaking social responsibilities essential for the reproduction of labour power, and in the widespread depreciation of the human being as an economic asset, and in the collapse of the non-formal sector household and communal infrastructure in the face of the indomitable odds against survival.
5. The inadequacy of employment opportunities has generally led to the state acting as a major agency for absorbing labour, even if much of this employment is non-productive in the classical sense. The tendency for the state to be overly extended is a common feature of enclave economies.

These biases are common to all African economies regardless of whether they have pursued inward-looking policies or not, or whether they have been market oriented or not. Indeed it is this commonality in the problems confronted by these countries that begs for a paradigm shift in interpretation of the problematic of the low labour absorption rate. The issue can be pursued further to another level of analysis, that which pertains to the structural legacies of particular *types* of economies.

The following four types of archetypal structural legacies define the specific manner in which enclavity and economic dualism have been manifested in particular countries of Southern Africa:

1. the settler dominated economies of South Africa and Zimbabwe, and to some degree Namibia;

2. the economies of South Africa’s periphery comprising Lesotho and Swaziland, and to some degree Botswana and Namibia as well;
3. the resource-based, rentier, monocultural economies comprising Botswana, Namibia and Zambia; and
4. the agrarian economies of Malawi, Mozambique and the United Republic of Tanzania.

The importance of each structural legacy is that it tends to uniquely define the nature of the legacy of enclavity for each group of countries, and, by the same token, the nature of policies needed to resolve the problems of economic dualism and low labour absorption. The above structural legacies are compounded, not nullified, by the super-imposition of self-proclaimed policy stances reflecting particular ideological hues ranging from different versions of ‘socialism’ to various forms of statist ‘market orientation’ as defined by the ruling elites. Interestingly, these legacies are not really resolved by economic reforms, which are presumably adopted to restructure the economies toward more efficient outcomes. They may in fact have been accentuated.

### 4.1 The settler dominated economies

These economies — South Africa and Zimbabwe, and to some degree Namibia — represent the epitome of enclavity in which immigrant settlers formally institutionalised economic dualism. They are characterised by a number of features. First, their enclavity evolved on the basis of institutionalising the exploitation and marginalisation of the majority of the labour force as a source of cheap labour. This was assured by dis-entitling the majority of their land entitlements, restricting their access to human capital development through education and training, restricting their access to skilled and professional jobs and occupations except the most menial, and generally ignoring the development of the non-formal sectors which increasingly became non-viable as population grew in the face of shrinking land resources. Thus formal mechanisms were put in place to depress the subsistence wage, while simultaneously denying the labour in the non-formal sector adequate access to formal employment. It should be noted that this strategy appeared to be necessary for the exploitation of primary resources in the form of agriculture and mining. The dualism was formally institutionalised by strictly regulating the flows of labour between the formal and non-formal sectors and within the formal sector itself. In effect, prior to majority rule, these economies actually formalised the long-term development of an enclave economy.

Second, while during their early years of development these economies tended to follow the traditional path of colonised economies — characterised by dependence on primary production, minimal import substitution, and high dependency on external export markets and imports of industrial and consumer goods — they quickly embarked on an economic nationalism that began to challenge the role assigned to them in the imperial division of labour. This took the form of inward looking, import substitution strategies aimed at diversifying their formal sectors. The reorientation was attempted with a high degree of success through various proactive state policies ranging from control and management of the exchange rate, management of interest rates and prices, provision of fiscal subsidies, protective tariff and customs policies, targeted human development strategies for the settler community, provision of subsidised infrastructure and utilities, and all the time ensuring that the majority were relatively marginalised. The resulting enclavity was so structured as to make the formal sector self-contained with mutually complementary primary, secondary and tertiary sectors that catered to the settler segment of the population and that segment of the indigenous labour force that was engaged in formal employment, generally as unskilled labour. The rest of the labour force, amounting to about 50 per cent in South Africa and 70 per cent in Zimbabwe, was for all practical purposes seen as redundant. This part of the labour force was regarded as important only in so far as it reproduced the labour force needed in the formal sector and acted as a reservoir for spent labour from the formal sector. In South Africa and Namibia there were even attempts to actually define the redundant non-formal sector localities as 'foreign countries' in the form of Bantustans and later as Homelands, thereby externalising the economic problem.

As would be expected on the basis of the earlier discussion of enclavity, these economies have built-in constraints to their own future development, as well as to the absorption of labour, particularly the majority of the labour force that is unemployed or underemployed. First, the formal sectors have low elasticities of employment with respect to output and investment. In South Africa, for instance, the labour to capital ratio declined by about 50 per cent between 1960 and 1993 (Harber, 1995). Second, the development of the manufacturing sector eventually ran into constrained demand since the majority of the labour force was dis-empowered economically and the settler demand was limited. Thus, as a concomitant, these economies have also been plagued with excess capacity, in particular in the secondary sector. In addition, since the mutually interactive process of primary or internal accumulation was precluded from the outset, the secondary sector could not act as the main absorber of labour. As explained earlier, investing in the formal sector was regarded as less profitable than exploiting the external market, hence the importance of the regional market for South Africa for instance. In addition, the need for investment opportunities coupled with a skewed income distribution has led to the premature over-expansion of the tertiary sector. Thus these countries are rapidly shrinking their primary sectors as a proportion of the GDP while expanding their tertiary sectors without having fully exhausted the development of the secondary sector as the basis for employment absorption. One of the major concerns of these economies, even in the face of economic reform, is the phenomenon of jobless growth.

The settler economies, given their higher levels of development and diversification, have the greatest potential for exploiting the benefits of outward orientation and globalisation but their dualism and enclavity severely hamper the realisation of balanced and equitable growth. In South Africa and Zimbabwe, if the lateral expansion of the formal sector is to be the basis of labour absorption, annual output growth rates of at least 5 per cent would be needed to absorb merely the net increase in the labour force, leaving present levels of unemployment and underemployment unchanged. Major interventions to make the economy more labour intensive and to empower the marginalised part of the labour force with asset and income entitlements are needed, more or less along the same lines that were used to empower the settler community relying on pro-active and promotional policies initiated by the state.

## 4.2 The economies of the South African periphery

These economies — Lesotho and Swaziland, and to some degree Botswana and Namibia — have historically been dependent on the South African economy. Also known as the BLNS countries, they all belong to the Southern Africa Customs Union, perhaps the oldest and most developed form of regional co-operation in Africa, and, except for Botswana, also to the Common Monetary Area, both of which are dominated by South Africa. Initially the dependency of these countries on South Africa was in the form of employment opportunities offered by that country for their citizens. This was undertaken through a migrant labour system that treated the imported labour as temporary migrants who were periodically transported back and forth between the mines of South Africa and the non-formal sectors of these countries. The nature of this relationship is well known and need not be repeated here. It is necessary however to point out the implications of this and other relationships with South Africa for the marginalisation of the labour force in the non-formal sectors of the countries of the periphery.

The dependency on the migrant labour system has been rationalised on the basis of the benefits it yielded to the individuals and their states. Individuals benefited from the incomes they earned, which were higher than those in the subsistence sectors of their own countries from which they were drawn. But as many studies have shown, the incomes earned were not enough to provide long-term sustenance for these individuals and their households beyond the period of working life. In later years, right up to the present, real wages have increased but not enough to make a major difference in the standards of living of the workers in their areas of origin. The main point to stress is that the migrant labour system denuded rural areas of the adult male population without, in return, enhancing the viability of these areas. Indeed, the general outcome has been to depress and undermine the rural areas as a consequence.

The migrant labour system essentially transformed these countries into peripheries of South Africa. From the standpoint of economic dualism, the migrant labour system had the effect of obviating the need for rural development within the sending countries since migration was more profitable under the circumstances. Even governments have found it difficult to promote rural development in the face of predominantly female labour, and a male labour force more intent on working outside their own countries. By the same token, this same process obviated the need for the development of secondary industries since the Customs Union ensured that South African goods were dominant in all peripheral countries. There is thus a legacy in these countries of the failure of rural transformation and industrial development, and of the possibility of initiating a virtuous interaction between formal and non-formal sectors.

The other aspect of the dependency on South Africa concerns the effect of membership in the Customs Union. This relationship was initially designed to widen the market for South Africa and protect South African goods, which it has done quite effectively since all the trade creation benefits have gone to South Africa while the negative trade diversion effects have been absorbed by the BLNS countries. The direct and indirect employment effects of the Union have accrued to South Africa but this country has attempted to make up for the trade diversion consequences by reallocating some of the customs union revenues to the BLNS countries where they have been seen as bonanzas by the states, particularly Lesotho and Swaziland which are less endowed in natural resources. These revenues, together with the remittances of mine worker migrants, have had the effect again of obviating the need for some of the states to find independent means from productive activities in their own economies. In many respects the revenues and incomes have acted as pure rents that distorted resource allocation within these countries in favour of service activities with quick returns. Given the superiority of South Africa in providing employment opportunities and producing capital, intermediate and consumer goods within the context of the Customs Union, relative returns to capital are so distorted in favour of South Africa that investment in these economies is relatively unattractive. This effect is a mild form of the “Dutch Disease” which will be discussed further below with respect to the rentier economies.

Botswana and Namibia have been fortunate in that they are endowed with mineral resources. These resources have proved to be a boon to their economies, which enjoy per capita incomes equivalent to that of South Africa. Nevertheless, as will be discussed below, these countries have been unable to resolve the problem of economic dualism, as manifested primarily in the underdevelopment of their rural non-formal economies, in spite of high rates of GDP growth which have been sustained over the years due to their lucrative mineral exports. Indeed, these countries, which are market oriented and have enjoyed high rates of growth, epitomise the problematique of enclave development and economic dualism. This is especially so given that they have relatively small populations. The nature of peripheral development is, however, most accentuated in Lesotho.

### 4.3 The resource-based rentier monocultural economies

These economies — Botswana, Namibia and Zambia — are dependent on a single major resource, mining, which has been the driving engine of the formal economy. Their enclavity and dualism are defined by their extreme dependency on this single sector and commodity. Many of the secondary and tertiary activities in these countries are also dependent on the viability of their major activity. For these economies their mining sectors evolved relying on cheap indigenous labour drawn from the non-formal sectors, but without requiring the transformation of these latter sectors. Since the growth of the mining industries was only dependent on markets external to these economies and only on cheap labour from within the countries, the demand imperative for internal transformation was again forestalled. The returns to labour were only enough to support a minimal degree of agrarian and industrial development within the formal sector without requiring the wholesale transformation of the economy. Indeed, the export bonanzas provided the means to import the capital, intermediate and consumer goods that the formal sector needed beyond wage goods.

These economies have generally been plagued by the “Dutch Disease,” with periodic or sustained booms in export prices resulting in economic rents that distort resource allocation as follows. First, the returns to the booming industry overwhelm the returns in alternative activities such as manufacturing and agriculture, thereby discouraging investment in these latter sectors. Second, incomes are so high that the purchase of imports is not a painful way of acquiring capital, intermediate and consumer goods and services, thereby making it extremely difficult for such alternative industries to emerge without substantial subsidies. Third, the excess liquidity is generally channelled into quick return service and speculative activities with few employment benefits. And fourth, some of these states have resorted to taxing the export sector to over-expand the state bureaucracy or to invest in unnecessary excess capacity in infrastructure or social services.

When recessions occur the effects on these poorly diversified economies are often quite disastrous, as the experience of Zambia has shown. Both in times of boom and recession, these countries have manifested high levels of enclavity in their monoculture-dependent formal sector and high degrees of depression in their rural sectors where the majority of the labour force still resides. Recent economic reforms have not been able to reverse this legacy of structural distortion. If anything, they have tended to reinforce it, even if at higher levels of efficiency in the enclave formal sector.

## 4.4 The agrarian economies

The final set of countries — Malawi, the United Republic of Tanzania and Mozambique — are poorly endowed in natural resources and were regarded during the colonial period as the backwaters of the British (in the case of the first two) and Portuguese (in the case of Mozambique) empires. In the past, these countries shared the fate of Lesotho in being part of the periphery of South Africa, depending on this country for employment opportunities and industrial goods without belonging to the Customs Union. They also have the smallest formal sectors in the region, with the majority of the labour force engaged in subsistence farming. Mozambique has only recently seen peace and has thus not been able to experiment with economic transformation to any degree. During the colonial period these economies saw only limited development of formal agricultural activities, with their overall development being benignly ignored. Internal employment conditions were such that they did not provide enough of an incentive for rural folk to leave their subsistence activities. Enclavity was sustained primarily by the limited nature and non-viability of the formal sectors. For a while during the colonial period, the rural labour remained uncaptured by capitalism. Following independence, governments in these countries were intent on reversing the legacy of their colonial past. Their success in this effort, however, has been rather limited so far.

Following the attainment of independence, Malawi embarked on an agrarian transformation that saw the country develop a viable but limited estate and small-scale agriculture based on tobacco and cotton farming. This strategy, pursued in the late 1960s and early 1970s, saw a marked proletarianisation of the rural labour force through what initially was a form of primary accumulation based on cheap labour. Formal sector agricultural employment increased markedly. The strategy, however, soon reached its limit in terms of labour absorption as it did not comprise an industrial strategy as well. This was further reinforced by the exhaustion of fertile land for formal agriculture expansion. The abortive and one-sided transformation strategy in Malawi not only unravelled the rural economy without creating substitute employment opportunities, but it also resulted in a depressed economy which needed more than an export oriented agricultural sector to resuscitate itself. As a result, the economy has become increasingly informalised, with declining employment opportunities in the formal sector.

Malawi has neither had the attractive infrastructure or industrial base, nor the capacity to take full advantage of the opportunities offered by the economic reforms it has been pursuing over the past decade and a half. As a result, the economy is still in dire straits and unable to absorb net increases to the labour force, let alone to create productive employment opportunities for its extensive rural underemployed.

Tanzania on the other hand attempted a form of socialist transformation based on co-operative agriculture, which never really took off. Not only was the strategy ill conceived, but it also experienced a number of difficulties within the rural sector. The failure to link rural transformation to an industrial strategy further constrained the possibilities of transforming the economy from its agrarian legacy. The strategy succeeded in expanding the role of the state without having a marked impact on productivity and living standards in rural areas. The enclavity in Tanzania is similar to that in Malawi, defined by the limited nature of the formal sector and the tendency toward the general informalisation of the economy through the sharing of poverty.

On the attainment of independence, Mozambique promulgated a socialist path but was immediately plunged into civil war, which was exacerbated by South African destabilisation. The government never had the opportunity to experiment on the reversal of its colonial legacy. Even in times of relative peace and with a declared market orientation, the country has found it difficult to resuscitate the economy, which has remained primarily agrarian with only a small formal sector.

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From the foregoing discussion it may appear that the notion of enclavity may be tautological in that it appears to explain every situation in Southern Africa and may accordingly explain very little. However as indicated earlier, there is a hierarchy of problems that need to be explained and addressed. The first relates to the structural economic legacies, which were bestowed to these countries by colonialism. The enclavity and economic dualism in this respect relate to the fact that the formal sector in these countries was not an endogenous outgrowth of the interactions between the agrarian and industrial sectors, but was implanted and nurtured on the basis of imperatives that reflected external interests. Then there are factors related to the autonomous policies pursued by these countries, which tended to reinforce economic dualism and enclavity. When the two levels of the problem are conflated, the result is the labour absorption problem that this essay has attempted to analyse based on the theoretical postulations of Lewis. From the perspective of Lewis's model of open enclave economy, the problems discussed above suggest that in some of the countries, particularly in the extreme case of settler economies, the enclavity and low labour absorption have been exacerbated by the successful but constrained growth of a relatively self-contained formal sector. On the other hand, at the other extreme of the agrarian economies, these problems have been aggravated by the failure of the formal sector to emerge in a viable manner. In both these extreme cases nothing has transpired so far that could have led to a virtuous transformation of the formal and non-formal sectors either before or after independence, hence the persistence of the labour absorption problem in all of the countries.

In concluding this section it is necessary to comment on the implications of economic reforms being adopted by all the countries in the region. It should be pointed out that the deductions regarding the origin and nature of the labour absorption implications of the enclave model are independent of whether the economy is market oriented or not, or whether it is outward oriented or not. The critical factor has been the absence of a conscious strategy of agrarian and industrial transformation that would lead to the precipitation of a virtuous circle of dynamic interactions in the economy that would enhance labour absorption and internal accumulation on a self-sustaining basis. The crucial questions are, first, whether economic reforms are adequate in precipitating this kind of a transformation solely based on market forces and the limited role of the state, and, second, whether there is enough impetus internally and globally for the long term expansionary consequences of economic reform and restructuring to actually emerge and outweigh the short and medium term contractionary effects of the measures themselves. These are essentially the questions posed by Toye (1995) in his review of the relationship between structural adjustment programmes and employment. The answers are unfortunately in the negative, as the experience in Africa has shown. If anything, economic reform measures appear to be resuscitating the formal sectors in such a way that the enclavity is accentuated.

## 5. Resolving enclavity and enhancing labour absorptive capacity

Enclavity and economic dualism imply extreme inefficiencies and an inadequate internal demand that hamper the emergence of virtuous interactions of backward, forward and lateral linkages between sectors and value chains. Effective policies aimed at resolving the economic inefficiencies should necessarily lead to such interactions. From what has been said so far it should be clear that a paradigm shift is needed in two areas. The first concerns the need to shift away from perspectives that rely solely on market constraints and distortions as the main factors militating against labour absorption. Instead, it is necessary to appreciate the nature of the problem using the enclave model approach. Secondly, it must be recognised that the market on its own may not be able to precipitate the necessary structural changes required to enhance labour absorption. There is thus a need for pro-active measures by the state, even if within a market context that respects stabilisation conditionalities to some degree.

The acceptance of the enclave model as the explanatory approach to the low labour absorption rate also implies the need to have a clear understanding of the nature of the constraints to an integrated development process that transforms both the formal and non-formal sectors and their relationship. By the same token, there is a need for a clear vision of the desired and possible structural transformations in the formal and non-formal sectors and how they should be related, which should guide the choice of the pro-active measures to be put in place by the state

The necessary first step is to precipitate the process of primary accumulation by progressively providing exchange and asset entitlements to the labour force in the non-formal sectors. The exchange entitlements can arise from large-scale, labour-intensive activities (private and public), or through small-scale rural and urban activities that are part of the processes of profit-making (and not so much survival) or more generally surplus generation. The asset entitlements need to be provided through land reform and the promotion of small-scale agricultural activities and the provision of credit for small-scale industries in rural and urban areas, both of which should again not be survivalist in nature but aimed at profit-making or surplus generation. The promotion of exchange and asset entitlements along these lines has the effect of commoditising social and economic relations in the non-formal sector, thereby capturing its labour force under the rubric of market imperatives. Such a process, entailing as it does class formation and differentiation, cannot be gradual and free of tumultuous consequences. It is nonetheless a necessary step.

Much has been said about the lessons to be learnt from the East Asian miracle (Amsden, 1989; Li, 1988). An often ignored aspect of the transformation of these countries was the initial process of agrarian reform which altered the nature of asset and exchange entitlements in agriculture and its linkages to the industrial sector, thereby precipitating a process of primary accumulation. This was undertaken decades ago in the early years of development. In Japan a similar process was accomplished through the Meiji Revolution, and in the industrial countries of Europe the industrial revolution had the same effect. This process has the effect of placing a country on a trajectory of growth and development that embraces all parts of the labour force and blurs the distinction between formal and non-formal sectors by integrating them. This is the process that no African country has attempted to achieve, as is easily demonstrated by the manner in which the non-productive subsistence sector persists as the major absorber of labour. To be sure bold attempts at economic restructuring along the above lines have been made with strong state intervention in Côte d'Ivoire, Kenya and Malawi on the basis of a market orientation, and in Algeria, Ethiopia, Ghana, Tanzania and Zambia based on socialist strategies. These attempts, however, did not go far enough and created more problems than they resolved.

Once the strategy of agrarian and industrial transformation has been envisioned there is a need for the formulation and implementation of the following policies and measures:

1. Policies to reverse or counteract biases in favour of large-scale, capital-intensive enterprises. In line with the envisioned strategy, the aim should be to create a neutral environment, or one that is decidedly biased in favour of desired activities of whatever scale that are labour absorbing.
2. Policies to mediate savings and investment funds in a manner that directs them toward desired activities. It should be recalled in this respect that the East Asian countries have generally had controlled financial sectors.
3. Policies to redirect domestic and foreign investment into strategic activities that reinforce the desired strategy. The use of supply-side measures and public expenditures to crowd in investments and direct them toward desired activities is important in this respect. More generally, there is a need to mobilise domestic investment as well and to develop an indigenous capitalist class that is not necessarily a 'comprador bourgeoisie'.
4. Measures that reduce the cost of wage goods as well as transaction costs of labour in the process of transformation.
5. A strategic approach to education and training to facilitate the development of skilled personnel for activities generated by the new strategy. This is one area where African countries have consistently blundered. In the absence of clear agrarian and industrial strategies, human resource development policies have tended to be incoherent and unrelated to economic developments.
6. Measures to ensure that outward-oriented strategies and export promotion directly impact on the labour absorbing activities identified by the new strategy, in particular small-scale and labour-intensive enterprises in both rural and urban areas.
7. Measures to promote the development of mutually complementary clusters of activities in a context of balanced growth.
8. Promoting public works programmes that enhance the asset and exchange entitlements of the newly absorbed segments of the labour force.
9. Resolving structural distortions and, through indicative planning, guiding the market toward particular outcomes relying on incentives and disincentives.
10. Attempting to lead, follow or complement the market through various supportive measures as needed.
11. Re-orienting the following policies toward the process of integrated transformation of the economy, especially by neutralising existing biases in favour of capital intensity and large-scale production with low employment elasticities and employment multipliers: legal and regulatory regimes on company law, industrial organisation, contracts, access to capital, credit and land on the one hand; and fiscal, trade, labour market, industrial, tariff, financial, monetary and exchange rate policies and regimes on the other. While the need for such policies to be neutral is accepted as a general

proposition, there is also a need for narrowly targeted supply-side distortions to facilitate temporary promotion of particular activities or outcomes.

12. Promoting the fragmentation and unbundling of activities to facilitate broad-based economic empowerment of previously marginalised groups.

The general approach being outlined here is one that is not necessarily incompatible with the need to adhere to stabilisation guidelines, except that targeted and carefully circumscribed interventions are called for through the use of incentives and disincentives to steer the economy toward particular outcomes. It is necessary to have a broad consensus among the social partners and in the polity as a whole as to the path being pursued. In addition, the strategy needs to be intimately monitored and consistently fine-tuned, hence the need for the development of state capacity at all levels to undertake such a strategy. Appropriate institutional and consultative mechanisms across the whole spectrum of society are needed to execute the strategy.

Finally, there is the question of how resources should be mobilised for the strategy. First, there is a need to reprioritise recurrent and capital expenditures of the state to facilitate the desired restructuring. In particular, the ubiquitous non-productive expenditures of the state have to be redirected toward productive activities along the lines of the suggested strategy. Second, there is a need to strategically mediate savings generated as the restructuring process unfolds so as to redirect the funds into desirable investments. And third, it is important that foreign investment and foreign aid be strategically utilised to complement an existing strategy and as such appropriate measures need to be put in place to influence the use of such funds in the desired direction.

## 6. Conclusions

This essay has been aimed at addressing the twin questions of why it is that a majority of the labour force in African countries continues to be unemployed or underemployed, and why it is that the response of employment to increases in gross domestic product and investment is low. This is what has been termed the problem of low labour absorptive capacity of African economies. It has been argued that there are historical structural factors that result in the exclusion and marginalisation of the majority of the labour force from engaging in productive activities that would result in sustainable increases in living standards. These factors have been attributed to the enclave and dualistic legacy of African economies. This legacy was initially a consequence of the fact that the formal sector emerged as an exogenous implant whose modus operandi was generally linked to external factors, thereby obviating the need for an internal accumulation and transformation process to emerge that would have captured the majority of the labour force into the capitalist process of accumulation. It has been argued that the problem has persisted as a consequence of the uncritical acceptance of the enclave formal sector as the engine of growth, as well as of the belief that trickle down effects from formal sector growth would eventually absorb the rest of the labour force into productive activities.

The paper has presented an approach to the problem based on the earlier contributions of Arthur W. Lewis in his analysis of labour surplus economies and the problem of transformation. Based on this approach, it was shown that, given an initial enclave structure and an open economy, market forces would not be able to resolve the enclavity and would in fact reinforce it. It has been argued that this eventuality has been exacerbated by government policies of omission and commission, particularly those that have reinforced the capital-intensive, large-scale formal sector and, by the same token, the bias against non-formal sector activities in rural and urban areas. It has been argued that the adoption of economic reforms, while beneficial to the enclave formal sector, will generally accentuate existing economic dualism even if they might increase labour absorption to some degree, though not enough to result in a reduction in the number of unemployed and underemployed. The paper has proceeded to illustrate the nature of enclavity in the economies of Southern Africa by briefly discussing the specific manner in which this has evolved based on the economic legacies of broad classifications of countries of the region.

It has been concluded that pro-active measures by the state are necessary to restructure the productive base of the economy by making it more inclusive of the majority of the labour force. The idea is to have the unemployed and underemployed captured by the imperative of capitalist accumulation, thereby precipitating a virtuous circle of interactions that would have a broad and dynamic long-term impact on the economy. This could be accomplished through various interventions that broaden the asset and income entitlements of the majority of the labour force, in particular through policies that are decidedly biased toward those activities that would absorb such people more. An initially broad base of productive employment, even if at low levels of income, provides a stronger and more sustainable basis for inclusive and equitable growth than a small employment base with high levels of income concentrated among those working in the enclave sectors. For the proposed outcome to occur, there is need for a shift in paradigms from the trickle down assumptions of current conventional economic policy regimes to one informed by the structural limits of the enclave model of growth and guided by the need to pro-actively restructure this legacy in order to launch a basis for more inclusive development.

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