

Abstract

The Lewis dual economy model is widely recognised in development economics for its profound explanatory power and applications in economic development. However, there remain some confusions and ambiguities, especially with respect to the definition of surplus labour and the wage determination mechanisms in both the traditional and modern sectors. This has prohibited its use, especially in empirical studies. This paper clarifies and extends this theory. Several questions are addressed. Firstly, it defines two types of surplus labour. Second, it considers the pattern of production and of population growth in the traditional agricultural sector to define the subsistence level of consumption. Third, it considers two wage determination mechanisms in the modern sector, which are then applied to the relationships between these mechanisms and labour market restrictions. Fourth, the role of agriculture and food supply is discussed. Fifth, it considers the dynamics of surplus labour and labour transfer, and defines two types of turning points, which have important implications for empirical studies. Sixth, a scenario for urban surplus labour is presented. In summary, the paper seeks to enhance the general level of understanding of the Lewis model and its application to the process of economic development.

Keywords: Economic development, Dual economy model, Surplus labour

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