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## The contested arena of African labour markets: can NIE explain their effects on development?

This paper offers a critique of New Institutional Economics (NIE) as an analytical framework to understand processes of economic exchange and development in African labour markets. A review of the main schools of thoughts shows that NIE – despite its focus on the role of institutions in economic development and growth – largely fails to explain how distributional conflicts and relations of inequality shape social and economic institutions such as labour markets. Instead of taking the notion of institutions as elite bargains as an analytical starting point, NIE essentially depends on the assumption that institutions function to promote an efficient allocation of resources by reducing uncertainty, risk and transaction costs in processes of economic interaction. Although more recent historical analysis (North *et al*., 2009) recognises the positive effects of greater equality in access to resources on social order and economic growth, NIE remains weak in explaining the role of inequality in economic exchange and how it affects development outcomes at the micro and macro level.

Recent case studies from sub-Saharan Africa indicate that distributional conflicts and relations of inequality shape the organisation of labour markets and directly affect productivity and welfare levels. Following Tilly (1998), this paper argues that the extraction of surplus value from others represents a recurrent and potentially inherent part of economic exchange, but is invariably based on historically specific relations of inequality. Fresh evidence from rural and urban economic sectors in Uganda is presented to explore the structures of inequalities faced by large numbers of casual workers in highly informalised labour markets. Data from surveys, semi-structured interviews, and participant observation at the workplace level illuminate the discriminatory nature of informal or 'social' labour market regulation that plays a central role in the absence of effective state institutions. As a result, labour markets remain strongly segmented and characterised by low levels of mobility and communication between groups of workers, which are defined on the basis of dominant social norms and practices. The paper shows that these 'durable inequalities' (Tilly, 1998) have important reverberations for the slow and uneven development of economic organisation among casual workers.

Following historical political economy approaches to the analysis of institutionalised inequality and the development of distributional patterns under historically specific institutional arrangements (*see*, for example, Chang, 2002; Bowles & Gintis, 1993; Rebitzer, 1993), this paper discusses the role of institutions in enforcing and reproducing existing power structures and elite interests, rather than universally applicable notions of efficiency in resource allocation. As the critique of Acemoglu *et al*.'s (2002) 'Reversal of Fortunes' thesis has shown, the effects of specific sets of institutions on economic development cannot be generalised across diverse historical contexts (Bandyophaday and Green, 2012; Olsson, 2004; Prezeworski, 2004). This paper presents new evidence that alongside factors such as information asymmetries, uncertainty and transaction costs, it is relations of inequality and exploitation that play an important role in reproducing and changing economic relations.

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