Colonial Legacies and Institutional Legitimacy: Explaining Variation in State-Level Informal Economy Size

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Colonial Legacies and Institutional Legitimacy:
Explaining Variation in State-Level Informal Economy Size

Makayla Barker
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Abstract: Why are some states’ economies more formal than others? This question has critical significance for policy-makers who endeavor to tap into the reservoir of tax revenue and entrepreneurship that informal economies contain. More importantly, large informal economies inhibit public good provision and perpetuate the impoverishment, marginalization, and political instability of select communities. Despite major variation in the size of informal economies across states, most scholarship on the informal economy concentrates only on the causes and consequences of the phenomenon, while neglecting to address its variation. This thesis builds on a canon of scholarship surrounding colonial legacies, new-institutional economics, and institutional legitimacy, by advancing the novel theory that informal economy size is contingent on economic dualism stemming from the colonial period and post-colonial state legitimacy. I employ a regression analysis and three West African case studies, Senegal, Côte d’Ivoire, and Cabo Verde, to evaluate this claim. These findings broaden our understanding of the informal economy and offer new insights for addressing its consequences.
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Preface

Rush hour in Dakar, Senegal is, like in many big cities, a mess of cars, trucks, and motorbikes reduced to almost a standstill as traffic inches its way along le Corniche, a main thoroughfare that stretches around Dakar’s peninsula. Drivers, taking liberty in expressing their clear frustration alternate between blaring their horns and shouting loudly out their windows. Many of these drivers, sitting behind the wheels of iconic yellow taxis, are careful to take into account the extreme congestion when negotiating the cab fare for each subsequent passenger. Aside from the taxi drivers, marchand ambulants add their own voices to the chorus of sounds; weaving their way in between the stop and go traffic, they target increasingly bored passengers, offering them anything from cashews to cell phone credit through their car windows, often racing one another to make a sale. Other vendors have semi-permanent wooden stands that line the sides of the street; most pile mangoes, oranges, bananas, and melons so high that they nearly spill onto the ground. Unlike the cab fares, the price of produce is largely fixed and consistent across the city, although any other street product, perhaps a handbag, or phone charger, can be bargained for.

In contrast, commuters crawling along Highway 94 in the height of afternoon rush-hour in Minneapolis MN, experience similar levels of noise and congestion but lack the opportunity to buy snacks from street vendors along the way. Any economic transactions that do take place, like ride share services or highway tolls, are determined by a formal collection of standardized equations designed to set optimal price levels rather than a series of colloquial norms. Negotiated cash transactions are rare, and exchanges through car windows are almost
unheard of. While nearly every city in the world has a rush hour, there is extensive variation in the types of economic exchanges that take place. Minneapolis and Dakar offer two examples from a continuum between two extremes; cities wherein the bulk of all transactions are entirely formal, meaning they adhere to government regulations, and others wherein most transactions are informal, meaning that they do not comply with any standardized set of rules.

Importantly, these differences between cities have consequences that stretch far beyond cashew availability during daily commutes. In fact, informal activity can be intrinsic to any dimension of a State’s economy including but not limited to, the commercial sector, finance sector, agricultural sector, manufacturing and construction sectors, international trade, public goods provision, and municipal budgets. For some states less than 10 percent of their gross domestic product (GDP) is comprised of informal economic activity, while for others, that figure pushes 90 percent (ILO, 2018). This staggering variation provokes the question central to this thesis; “Why are some State’s economies more formal than others?” In response, this paper advances the theory that the relative sizes of contemporary informal economies are a residual legacy of the colonial period, and empirically tests the hypothesis that informal economy size is directly contingent on both economic transformation during the colonial period, and post-colonial state legitimacy. A regression analysis reveals a negative correlation between post-colonial state legitimacy and informal economy size, as well as tentative evidence that an interaction between post-colonial state legitimacy and the transformation of economic institutions during colonialism more accurately predicts economic informality than either variable respectively. While uncertainties persist throughout the regressions as to the relative impacts of legitimacy and economic transformation on economic informality, the case studies present unequivocal evidence that both phenomena are central to explaining variation in informalization.

The rest of this thesis proceeds as follows: Chapter 1 serves as an introduction to the thesis; it outlines definitions and characteristics of the informal economy, and introduces
variation in state-level informal economy size. It also describes the relationship between economic informality and institutions, and the ways in which large informal economies present unique challenges for the political and economic spheres. Chapter 2 explicates a theoretical mechanism linking contemporary informal economy size to the colonial period. Specifically, it delineates the claim that informality depends upon the transformation of economic institutions during the colonial period, and post-colonial state legitimacy. In turn, both of these concepts depend upon complex interactions between pre-colonial, colonial, and post-colonial institutions. Chapter 3 outlines the methods used in this study, which include a regression analysis and process tracing in three West African cases: Senegal, Cabo Verde, and the Côte d’Ivoire. Chapter 4 discusses the empirical results of the regression analysis. Chapter 5 introduces and analyzes the three case studies. The cases of Cabo Verde and Senegal involve detailed histories that reveal how the evolution of institutions in each state, as well as differing levels of legitimacy, led to different outcomes in informal economy size. The Côte d’Ivoire, filling the role of a shadow case, includes important details in the State’s history to illustrate the similarities and differences between the Côte d’Ivoire and Senegal that explain variation in the sizes of their informal economies. Finally, Chapter 6 concludes the thesis with limitations to the study and suggestions for further research.
Chapter 1

What is the Informal Economy and Why does it Matter?

The informal economy, though widely studied, is a relatively ambiguous concept; often referred to as the shadow economy, underground economy, hidden or invisible economy, and clandestine sector, among others, scholars struggle to standardize what types of economic activity classify as informal. This thesis primarily uses the definition and accompanying criteria advanced by the International Labor Organization\(^1\), which stipulates that the informal economy includes the following categories of individuals: First, it includes all laborers in the informal sector, which is a sector of the economy comprised of unregistered and unincorporated businesses. Second, it includes all employment outside the informal sector that is also not subject to labor legislation, income taxation, or covered by social protection or benefits offered by the State (ILO, 2018).\(^2\) Notably, many scholars employ their own definitions and

\(^{1}\)Use of the standardized ILO definition helps facilitate a comparison of informal economy size across states. Regrettably, it is beyond the scope of this study to critically examine how informal workers around the world conceptualize the term “informal” and whether or not they see this as an accurate representation of the labor that they perform. One avenue for future research includes using ethnographic research to investigate variation in the meaning of informal labor around the world.

\(^{2}\)While acknowledging that the informal sector is technically a subset of the informal economy, I will use both terms interchangeably in this thesis. Often, using the term informal sector allows for a clearer depiction of the various mechanisms described in this thesis, but the same processes and characteristics also apply to the informal economy.
CHAPTER 1. WHAT IS THE INFORMAL ECONOMY AND WHY DOES IT MATTER?

criteria to determine who is included in the informal economy. Even when the standardized
ILO definition is employed, informal economy size is notoriously difficult to measure, making
cross-state comparisons and generalizations extremely challenging. As such, much of the
research that investigates the informal economy examines only a particular city, state, or
region, or studies informality from an abstract point of view, answering the question, *why
does the informal economy exist anywhere?* While this question is central to understanding
the inner dynamics of the informal economy, the explanations that result often fail to ac-
count for variation between states, therein limiting our understanding of informal economic
activity.

Despite this apparent gap in the literature, it is worth asking, *why should anyone care
if one state’s economy is more or less formal than another?* After all, isn’t economic in-
formality fundamentally a domestic issue? Furthermore, while approximately 60 percent of
the world’s work force, around two billion people, work in the informal economy, approxi-
mately 93 percent of informal workers reside in developing states (ILO, 2018). Perhaps it
is safe to assume that informal economic activity will simply decline with improvements in
development, negating the necessity of studying the causal factors that influence variation in
informal economy size across states. However, simple bi-variate correlations reveal that com-
mon development indicators, including, education and GDP, are poor predictors of informal
economy size. For example, states with similar GDP per capitas have informal economies
that range in size from close to zero percent of GDP to over 80 percent of GDP (See figure
1.1). Similarly, states in which children complete an average of 10 years of education have
informal economies that range in size from zero percent of GDP to nearly 100 percent of
GDP (See figure 1.2).

Moreover, there is no relationship between economic regulation, a composite measure
of labor market regulations, credit market regulations, and the ease of starting a business,
and informal economy size. This indicates that “high barriers to entry” in the formal sector
(Chen, 2012), one of the most commonly cited causal factors of informal economic activity,
does not adequately explain variation in state-level informal economy size (See figure 1.3). This finding contradicts the perspective that economic informality is fundamentally a domestic political and economic issue by suggesting that sources of variation in informality may stem from outside the purview of state policies. Lastly, despite fast-paced industrialization and growth in many developing economies, both the World Bank and the ILO report that several states around the world have informal economies that have either stagnated or increased in size in recent years (Benjamin et al., 2014). The inability of commonly cited causal factors of economic informality to explain variation in state-level informal economy size should be cause for reevaluation of whether these indicators actually do explain the existence of the informal economy. Additionally, the lack of strong correlations between improvements in development and informal economy size indicates that it is not appropriate to assume that common development strategies will automatically reduce informal economic activity. Variation in state-level informal economy size therefore becomes exceedingly per-
CHAPTER 1. WHAT IS THE INFORMAL ECONOMY AND WHY DOES IT MATTER?

Figure 1.2: Education and Informal Economy Size

![Figure 1.2: Education and Informal Economy Size](image)

tinent to study because it reveals both the inaccuracies in current hypotheses regarding informality and the extent to which informal economies are an anomaly in states’ development trajectories. The remainder of this chapter investigates the informal economy through economic and political perspectives, highlighting why economic informality is a central concern to both spheres. It also illuminates the shortcomings of each discipline’s ability to explicate the causal mechanisms of variation in informal economy size.

1.1 An Economic Problem

In 1954, Nobel Laureate Arthur Lewis built a theory explicating capitalist growth by modeling individuals’ transition from the rural agricultural sector to the industrial formal sector in developing economies (Lewis, 1954). While Lewis (1954) developed this basic model nearly 20 years before anthropologist Keith Hart (1973) first coined the term ‘informal economy,’ Lewis’s work remains one of the most widely cited theories to model the dynamism
between formal and informal sectors. In brief, the model divides economies into capitalist and subsistence sectors by employing the concept of economic dualism,\(^3\) which refers to the existence of two distinct sectors or sets of economic institutions within one society, separated by different labor market structures, technological developments and regulatory patterns.

Modern understandings of economic duality between formal and informal economies acknowledge numerous interactions between both sectors (Chen, 2012; Baker and Velasco-Guachalla, 2018). The distinct separation that Lewis (1954) describes between the industrial and subsistence sectors fails to perfectly model the dynamism between contemporary informal and formal sectors; however, the concept of economic dualism still applies. Moreover, the model outlines basic characteristics of the subsistence sector that translate to the present

\(^3\) Dualism generally refers to the separation of a phenomenon into separate but paired elements. Conversely, duality indicates the separation of a phenomenon into separate, but interdependent elements (Jackson, 1999). Given widespread mobility between the informal and formal sectors (Baker and Velasco-Guachalla, 2018), the term duality arguably better encapsulates the split between the two sectors. For the sake of simplicity, and to accommodate research that preceded the distinction between dualism and duality in regards to the economy, this thesis uses dualism and duality interchangeably.
day informal sector. In particular, Lewis focuses particularly on low marginal productivity. He notes:

“The workers on the docks, the young men who rush forward asking to carry your bag as you appear, the jobbing gardener, and the like. These occupations usually have a multiple of the number they need, each of them earning very small sums from occasional employment; frequently their number could be halved without reducing output in this sector. Petty retail trading is also exactly of this type; it is enormously expanded in overpopulate economies; each trader makes only a few sales; markets are crowded with stalls, and if the number of stalls were greatly reduced the consumers would be no whit worse off—they might even be better off, since retail margins might fall” (Lewis, 1954).

Lewis describes a labor surplus rendering workers with “marginal productivity [that] may be negligible or even zero” (Lewis, 1954). In turn, micro-economic theory, a tool-set for understanding the economic behavior of firms and individuals, sheds light on the significance of this statement. Essentially, economists assume that all firms behave rationally in order to maximize profit. This “rational behavior” involves a number of activities, the most essential being cost-minimization. In order to minimize costs, each firm must choose an optimal amount of inputs (i.e. labor, land, capital, natural resources, etc.). Making the wrong decision will result in either under-producing or overspending on inputs. The consequences of this mistake are that individual firms are unable to maximize profit. Moreover, multiple firms making the wrong decisions will render disequilibrium for the entire economy because the supply of output that each firm produces will not match society’s demand for that good or service.

In Lewis’s (1954) model, labor is the only input. Choosing the optimal quantity of labor that minimizes costs is achieved by selecting a quantity of labor such that the wage-rate of each laborer is equal to the Marginal Revenue Product of Labor (MRPL). The MRPL is the price (P) of the commodity that the firm produces, multiplied by the additional change in output (Q) that hiring an additional laborer will produce, also known as the Marginal Product of Labor (MPL).

$$MPL = \frac{\text{Change in } Q}{\text{Change in } L}$$
1.1. AN ECONOMIC PROBLEM

Where $Q = \text{Quantity of output and } L = \text{quantity of labor}$

$$MRPL = (MPL \times P)$$

Where $P = \text{price per unit of output}$

The MPL will decrease as the number of laborers increases.

To operationalize this last statement, imagine that a worker has a MPL of three, and each commodity that they produce is sold for three US dollars; their MRPL is equal to nine. Now imagine that the current wage-rate is eight US dollars per day. The benefit of hiring this worker (nine dollars) is greater than the cost of hiring the worker (eight dollars), so the firm will employ this worker. Imagine now that the MPL of the next worker is equal to two. The MRPL, or benefit that the firm gets from hiring this worker, is equal to six US dollars, but the firm has to pay the worker eight US dollars per day. Because the cost of hiring the worker (eight dollars) is greater than the benefit (six dollars), the firm will not hire this worker. The firm will reach the optimal quantity of labor when the MRPL is equal to the wage-rate because the firm can neither benefit from hiring an additional worker, nor loose money by continuing to employ the workers that it does have. Theoretically, if as Lewis (1954) states, all informal workers have negligible MPLs, then informal workers should be predominantly sole proprietors.

However, empirically, it is not uncommon for informal firms to employ an average of one to three workers (ILO, 2018). Abdou, a shoe vendor in Dakar, explains the underlying rationale:

“It is difficult, there are many burdens, I have a wife, I have my kids, my father, my daughter, there are many many people who come to me for help, and each time I pay for bread, I pay for school, I pay for water, and I don’t make much money. Abdoulye my nephew, he needed help and so now he works with me. It is for that reason that I will always stay in the informal economy” (Informant, 2019)

Abdou’s admission reveals that informal workers, devoid of state support, rely on social networks and income-sharing as mechanisms for survival. Informal workers consistently fail to employ the optimal quantity of labor to maximize profit, choosing instead to use informal employment as a mechanism to support friends and family. This phenomenon highlights
CHAPTER 1. WHAT IS THE INFORMAL ECONOMY AND WHY DOES IT MATTER?

how common assumptions used to model firm behavior in the formal sector (i.e. that firms’ primary objective is to maximize profits) may be inappropriate for modeling firm behavior in informal economies. Unfortunately, practices like income sharing also perpetuate low marginal productivity and wages, thereby undermining informal workers’ capacity to build up enough savings to register for a formal enterprise. Consequentially, massive inefficiency and market failures plague the informal economy, making informality a salient economic issue.

In this regard, using a micro-economic lens to analyze informality seemingly offers a compelling explanation of the mystery of the informal economy. In summary, formal unemployment, poverty, and labor surplus in the informal sector generated by familial or cultural obligations to support family and friends, perpetuate economic informality. Recent efforts to expand microfinance, financial inclusion, and entrepreneurial activity in states with large informal economies (Banerjee and Duflo, 2011) are evidence of this belief. However, formal economies are also characterized by poverty, labor surpluses and low MPLs (Graeber, 2018). In May of 2018, Yale anthropologist David Graeber made the contentious claim that many jobs in the developed world today are “bullshit jobs,” that is “a form of paid employment that is so completely pointless, unnecessary, or pernicious that even the employee cannot justify its existence” (Graeber, 2018). Many of the book’s critics hailed Graeber’s (2018) provocative claim as both shocking and original. These critics failed to contextualize discrete labor surpluses or “bullshit jobs” in a transnational or historical analysis. Greaber clearly illustrates that low MPLs and labor surpluses are not unique to the informal economy. Therefore, while the informal economy is unquestionably economically inefficient, economic tools alone do not provide a full understanding of the persistence of economic informality or variation in informal economy size.

Lewis’s (1954) model also illuminates several additional key assumptions economists advance to understand the informal economy. First, the informal economy comprises a collection of laborers who are historically unincorporated into the capitalist or industrial sec-
tor. Second, informal workers are generally worse off than formal sector workers in terms of wage-earnings and remain trapped in the informal sector because low marginal productivity translates to low wages. Third, the informal economy inhibits achieving economic equilibrium within society because it is a source of massive inefficiencies in production and undermines societal wellbeing. Additionally, the model unveils some of the shortcomings of standard economic theory. Primarily, Lewis (1954) speculated that as subsistence workers, attracted by higher capitalist sector wages, entered the formal sector, the surplus of labor in the subsistence sector would diminish until everyone gained employment and wages in both sectors increased. However, despite increasing industrialization in most developing countries, state-level informal economies have shown no signs of decreasing in size in the 65 years since Lewis’s seminal text (Benjamin et al., 2014).

Lastly, the most significant fault of the Lewis model (1954) is that it never explains the impetus of the fledgling capitalist sector or acknowledges the role that colonialism played in boosting the development of capitalism in developing countries. Lewis neglects to acknowledge the contingency of capitalist development on capitalists themselves. Economists such as Lewis who avoid studying pre-capitalist economic systems in developing countries commit an egregious error in conceiving of capitalism as a system organized around labor, property, and markets, without identifying the extra-economic processes of accumulation by dispossession\(^4\) and appropriation, or the historical violence that parallels capitalist development (Ince, 2018). Essentially, Lewis and his followers delineate the origins of a modern industrial formal sector without conceding that a violent colonial mechanism instigated primitive accumulation\(^5\) in the Global South. This fault provides motivation to expand this study beyond the scope of an economic analysis.

\(^4\)An updated version of Marx’s concept *primitive accumulation* describing how capitalism centralizes wealth and power in the hands of a few people by disposing others of wealth and power. Specific mechanisms of accumulation by dispossession include: Privatization, financialization, management and manipulation of crises, and state redistributions (Harvey, 2005).

\(^5\)Primitive Accumulation is the process by which pre-capitalist modes of production were transformed into capitalist modes of production (Marx, 1867).
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1.2 A Political Problem

Informal economic activity, while inherently an economic condition, creates numerous trade-offs that challenge the capacity of governments with salient informal sectors to engage in good governance. One state employee in Dakar, Senegal details the first trade off:

“The State cannot provide everyone with an activity and so they create their own. These individuals, unknown to the State, cannot be taxed, which lowers tax collection. Yet the State cannot do anything about informal workers, because if finding their own activity lets them eat, they are less likely to revolt” (Informant, 2019).

The State is simultaneously incentivized to encourage economic formalization in order to capture lost tax revenue and to allow informal economic activity because it functions as a way to mitigate poverty and hunger, thus discouraging social upheaval. Non-taxed constituents are unincorporated from the State, and therefore formulate their own social networks to compensate for the lack of welfare services provided by the State.

To elaborate, large informal economies limit tax revenue to the extent that governments find it challenging to function or provide public goods. To exacerbate the problem further, asymmetric information between the State and its constituents render the State incapable of adjusting taxes according to each individual’s endowment (Azuma and Grossman, 2002). Instead, states must speculate on the quantity of taxes to extract from the population based upon aggregate summations of income. Therefore, regardless of whether the government is a proprietary state, meaning they seek to impose a predatory or extractive tax structure, or a benevolent state, meaning they seek to impose a tax structure that will optimize constituents’ welfare, the State will overtax its constituents, motivating migration to the informal economy.

Azuma and Grossman (2002) summarize:

“If the distribution of endowments is sufficiently in-egalitarian or if the production of private substitutes is sufficiently easy, then the state would extract a large enough amount from producers in the formal sector that poorly endowed producers would choose to work in the informal sector.”

In states with sufficiently large informal sectors, burdensome taxes will encourage an increasing proportion of the population to enter the informal sector as the tax burden on the
remaining formal sector workers increases, triggering a negative feedback loop of migration towards the informal sector. This phenomenon decreases the State’s revenue and capacity to distribute public goods.

Unable to use taxation as an effective means of coercion, the State is faced with the decision to implement laws prohibiting informal economic activity in order to avoid the consequences of an exodus from the formal to the informal economy. However, when constituents inevitably defy this legislation, the State must decide to either enforce the law with physical force, or engage in “forbearance,” that is, refrain from law enforcement in order to mitigate the risk of social upheaval which may develop if basic needs are left unmet (Holland, 2017). Individual politicians use forbearance if it is in their electoral interest: The politician considers “(1) whether government social programs offer an alternative to the legal violation in question, and (2) whether politicians depend on the votes of the poor to win office” (Holland, 2017). Forbearance is often designed to generate and maintain a positive reputation for political officials among poor voters (Holland, 2017).

Forbearance is often used in a clientelistic way, such that informal workers become accustomed to exchanging their votes for protection from law enforcement, thus undermining rule of law (Holland, 2017). This relationship highlights another trade-off faced by governments called the “forbearance trap,” in which politicians sacrifice the long term development of political institutions in order to garner constituent support in the short run. Essentially, politicians choose corruption over institutional reform. Consequentially, in many instances “informal” becomes a pseudo-identity that politicians can appeal to by offering certain benefits to informal workers in an attempt to galvanize political support. Yet in the long run governments would benefit from dissolving the informal economy in order to consolidate state legitimacy and reinforce rule of law.

Informal workers are also ultimately disadvantaged by these short term concessions. Not only are informal workers denied access to institutionalized social security programs and other public services, they forfeit any rights afforded to them as workers or employers. For
example, informal laborers notoriously lack property rights or access to legal institutions to enforce contracts. Instead, informal workers are forced to find other mechanisms that will ensure the protection of their goods. Some possibilities include hiring a guard, working only in particular locations, avoiding transporting goods, and sleeping with goods to avoid night-time theft (Fafchamps and Minten, 2001). Each option creates additional financial and physical burdens for workers. The contradictions between appeasement and legitimacy, short term and long term objectives, support for individual politicians and the development of governance institutions, and social networks and state-provided assistance bring understanding to the persistence of the informal economy in places where the State lacks strength or capacity.

The precarity of informal workers’ political power illuminates how the informal economy is fundamentally a manifestation of social exclusion, defined as a “dynamic process of progressive rupturing of the ‘social bond’ at the individual and collective levels” (Vidojevic, 2017). Informality denies access to state resources, information, and protections, thus undermining welfare and self-respect (Vidojevic, 2017). Power is central to discussing social exclusion and the formation of the informal economy. Informal workers, by virtue of their exclusion in society and unequal access to state goods, are inherently powerless relative to the power of governing elites (Saloojee and Saaloojee, 2011). Therefore, informal workers’ capacity to leverage votes for forbearance is limited by the dependency of politicians on lower-class coalitions for electoral support. In many societies, persistent corruption renders lower-class support unnecessary. Politicians trying to win the support of lower-class individuals might engage in forbearance, while politicians attempting to build an upper-class coalition will just as easily revoke forbearance by ordering police to impose fines, confiscate merchandise, destroy market stands, or even arrest individuals (Holland, 2017). For example, despite the government officials’ admission that the State was unlikely to commit to complete enforcement of the laws forbidding informal economic activity in Senegal, informal vendors from the market HLM still expressed fear of police raids, confessing that they were
unlikely to invest in much merchandise because they had either personally experienced or heard stories of wears being confiscated (Informant, 2019). With little insurance that their enterprises will be protected in the long run, entrepreneurs are unlikely to plan far into the future. Informal economy participants are therefore devoid of any long term stability, and the government is granted an almost unlimited capacity to exploit informal workers (Saloojee and Saaloojee, 2011).

Furthermore, informality often disproportionately impacts members of society who are already politically, socially, or economically marginalized. Specifically, while globally there are more men than women who occupy the informal economy, women comprise the majority of the informal economy in more states than men, mostly in Sub-Saharan Africa. Moreover, uneducated women are more exposed to informality than uneducated men in underdeveloped and developing states (ILO, 2018). Globally, more women than men in the informal economy are members of households below the poverty threshold, a dynamic that is reversed for workers in the formal economy (ILO, 2018). The income gap between men and women is likewise larger in the informal economy than the formal economy (Chen, 2001). Microfinance programs designed to direct funding towards supporting small and often informal entrepreneurial endeavors in order to increase female empowerment have met mixed results. Most famously in India, the birthplace of micro-credit, Banerjee et al. (2015) found “no significant changes in health, education, or women’s empowerment,” after randomly assigning micro-finance loans to women. Some research indicates that encouraging female empowerment by easing access into the informal economy might actually increase vulnerability because it encourages both men and the State to transfer the responsibilities of income earning and social protection to women, who already preform the majority of domestic labor (Meagher, 2010). Worse, women are unlikely to gain more autonomy in return for their additional labor, lending evidence to support the claim that informality is more a mechanism of marginalization than a mechanism of empowerment. (Meagher, 2010).

Informality also manifests as a structural form of racial discrimination against migrants.
For example, in South Africa, migrants are more than twice as likely to work in the informal economy than non-migrants, and black South Africans are significantly more likely to work in the informal economy than white South Africans. Police sometimes use economic informality as a heuristic for identifying migrants, leading to the arrest and detention of native South Africans (Adjai and Lazaridis, 2013). In Italy in the 1990s, 50 - 80 percent of migrants were employed in the informal economy. These migrants faced extensive violence, triggering a state-wide discussion on xenophobia (Campani, 1994). Today, there are approximately eight million undocumented migrant workers in the US working in the informal economy. Meanwhile, President Trump has initiated a plan to build a wall to deter migration based upon a rhetorical campaign that rests at the nexus of white nationalism and economic revanchism (Jordan, 2018). While it is critically important to keep in mind that racism, sexism, and xenophobia are produced and reproduced through interactions between society and individual members of the informal economy, this thesis seeks to confront the narrative that informality is a product of structural poverty, racism, sexism, etc., and instead propose that informality is a phenomenon that has developed parallel to these other forms of oppression.

In this regard, the duality between the informal and formal economy is best understood as a class structure that coincides with fundamental power differentials, allowing for the exploitation and marginalization of informal workers. Englebert (2000b) effectively summarizes the synergies and subsequent consequences of mutual economic and political exclusion stating:

“Citizens who try to improve their lot by escaping the state-sponsored formal economy live in a second-best economic world. In transferring away from some activities and into others, they both generate and encounter substantial efficiency losses, transaction costs, and innovative failures. The main costs are associated with the absence of a legal system able to guarantee contracts, the lack of well defined property rights, and difficulties in enforcing agreements. This prevents effective specialization and division of labor and leads to economies performing well below their possibilities.”

Englebert (2000b) illustrates the utility of a political lens in highlighting the challenges that informality poses to rule of law and state legitimacy, yet also underscores that the
1.2. A POLITICAL PROBLEM

consequences of informality are inherently political and economic. The analysis reveals the shortcomings of using exclusively a political lens to evaluate informality. Additionally, corruption, which perpetuates both clientalism and the forbearance trap, only loosely correlates with informal economy size (See figure 1.4). Likewise, public good provision, which is intimately related to social exclusion, does not sufficiently estimate a state’s informal economy size (See figure 1.5).

Figure 1.4: Corruption and Informal Economy Size

Therefore, while varied levels of corruption and governance quality are clearly symptomatic of large informal economies, political phenomenon do not adequately account for total variation in state-level informal economy sizes, limiting their explanatory power as causal factors of informal economic activity. The following section employs an institutional analysis to outline the combined economic and political influences on informality. It grounds the impetus of the informal economy in economic dualism instigated during the colonial period, thereby motivating the analysis in this thesis. Ultimately it demonstrates why I use
Chapter 1. What is the Informal Economy and Why Does It Matter?

Figure 1.5: Public Service Provision and Informal Economy Size

![Diagram of Public Service Provision and Informal Economy Size]

a historical and institutional perspective throughout the thesis to not only detail a more comprehensive understanding of the informal economy, but to offer plausible causal factors that explain both the impetus of the informal economy and variation between informal economy size between states.

1.3 An Institutional Perspective

Ronald Coase, famous for introducing the idea of transaction costs to the economic literature, memorably criticized economics devoid of institutions as a study of the circulation of the blood without a body (Coase, 1984). This witty remark, meant to encourage economists to enter the fledgling field of new institutional economics, highlights the field’s strength in understanding context based variation in economic outcomes. Coase went on to elaborate, “the costs of exchange depend on the institutions of a country; its legal system, its political system, its social system, its educational system, culture, and so on. In effect it is the
institutions that govern the performance of an economy, and it is this that gives the ‘new institutional economics’ its importance for economists” (Coase, 1984). Comprehensively defined as a series of norms that govern behavior, the significance of institutions to economic and political phenomena stem from their capacity to perpetuate norms across generations despite changes to an environment that would otherwise motivate changes in behavior (North, 1991). The so called “stickiness” of institutions motivates the attribution of certain development outcomes including GDP, patterns in governance, health, and other characteristics of well-being to the residual effects of historical institutions.

Building on new institutionalists’ mandate for incorporating the study of institutions into economic and political analyses, this thesis emphasizes the role that colonialism, as a series of historical institutions, plays in shaping contemporary informal economy size. It highlights the greater explanatory power of an integrated political, economic, and historical analysis. There is robust precedent for studying the effects of colonialism on economic growth and development within states. This thesis focuses specifically on how colonizers transformed the colonial landscape by integrating their own economic institutions into their colonies. Congolese scholar V.Y.Mudimbe (1988) stipulates,

“It can be admitted that the colonists (those settling a region), as well as the colonialists (those exploiting a territory by dominating a local majority) have all tended to organize and transform non-European areas into fundamentally European constructs.”

In articulating a nuanced claim that Europeans “[integrated] local economic histories into the western perspective” via manipulating pre-colonial organization and establishing new modes of production in the colonies, V.Y.Mudimbe (1988) illuminates that when Europeans established their own institutions within their colonies, they produced consequences beyond the temporary impacts of infrastructure or governance systems. Colonizers fundamentally altered economic organization within the colonies, creating widespread consequences for the following generations.

Empirical analyses corroborate Mudimbe’s (1988) conjectures by parsing out the effects of particular colonial institutions on development outcomes. Acemoglu, Johnson, and Robin-
son (2001) famously accredited higher economic growth among some former colonies to a higher percentage of European settlers during the colonial period (settler colonies), theorizing that greater concentrations of European institutions facilitated economic growth in the long run. They drew considerable criticism over the moral ambiguity of the perceived claim that colonization benefited certain states, however other scholars affirm the connection between settler colonialism and higher rates of economic growth relative to other former colonies (Austin, 2010; Kohli, 1994). Conversely, former colonies subjected to intensive resource extraction including mining, cash crops systems and the slave trade are on average less developed than their settler counterparts (Acemoglu et al., 2001; Austin, 2010; Nunn, 2008; Mkandawire, 2016). In each case, the degree to which colonizers transformed the economic structure within the territories they colonized influenced long-term development outcomes. While informality is less frequently studied as a consequence of colonial legacies than other economic indicators like GDP or inequality, the known relationships between colonialism and economic development suggest that colonial legacies plausibly influence economic informality.

Additionally, colonial institutions include not only institutions within the colonial state but the State itself. By establishing colonial borders irrespective of pre-existing polities and ethnic groups, colonists undermined the capacity of post-colonial governments to maintain a monopoly of violence within the territory\(^6\) (Englebert, 2000a), provide public goods (Easterly and Levine, 1997), or maintain economic growth (Alesina et al., 2011; Easterly and Levine, 1997). Post-colonial leaders faced considerable challenges in consolidating legitimacy, credibility, and authority as heads of state, and subsequently resorted to systems of corruption and clientalism to substantiate their own power, further corroding the development of the State (Englebert, 2000b). Consequently, post-colonial constituents often chose to exit the formal state apparatus and instead join the informal economy (Englebert, 2000b).

However, the conviction that former colonies’ development trajectories stems directly from colonial institutions is not without controversy. Noting variation in post-colonial out-

\(^6\)Weber (1965) defined the State as “a human community that (successfully) claims the monopoly of the legitimate use of physical force within a given territory.”
comes among colonies with the same colonizer (Berinzon and Briggs, 2019), and within former colonies (Archibong, 2019), evidence suggests that pre-colonial institutions also influence contemporary development outcomes, including public good provision (Wilfahrt, 2018; Archibong, 2019) and economic growth (Englebert, 2000b). The prevailing salience of pre-colonial identities and colonial institutions indicates that neither phenomena exclusively influence development today, but rather that development outcomes depend upon indigenous institutions’ reactions to colonial institutions and vice versa.

This thesis details how following the establishment of colonial institutions, indigenous communities responded in diverse ways by either maintaining or adapting their own institutions. The interaction between colonial and pre-colonial entities subsequently influenced the legitimacy of post-colonial leaders, or the degree to which constituents were willing to consent to the rule of a particular government and regime. The larger the deviation between pre-colonial and post-colonial institutions, the greater the legitimacy crises for fledgling governments and the greater the likelihood that political leaders would revert to neo-patrimonial policies that prioritized nationalism over inclusive development policies, eventually motivating individuals to join the informal economy (Englebert, 2000b). The analysis effectively accommodates variation in pre-colonial conditions and institutions, as well as variation in institutions established by colonizers. It acknowledges the culpability of colonizers in that they manipulated the colonial economic landscape instigating economic dualism, while also centralizing the agency and responses of indigenous peoples to colonial economic institutions as a primary influence in the variation of contemporary informal economies.
Chapter 2

Economic Dualism and Colonial Legacies

This thesis advances the theory that contemporary informal economies are a residual legacy of the colonial period; it hypothesizes that informal economy size is contingent on both the importation of economic institutions during the colonial period, and post-colonial state legitimacy. This hypothesis is substantiated by a body of literature supporting three distinct claims: First, colonialism involved importing economic institutions into colonial territories, prompting economic dualism, or in other words, two sets of economic institutions that apply to different subsets of the population. Second, duality in economic institutions as a colonial legacy has lasting impacts on present day societies. Third, the impact of economic dualism is not only dependent upon colonial economic institutions, but on the pre-colonial and posts-colonial landscapes in former colonies. This chapter will proceed as follows; section one will illustrate how colonization established new economic institutions within colonies, instigating economic dualism. Sections 2 and 3 will discus the “stickiness” of pre-colonial and colonial institutions respectively; that is, the degree to which these groups of institutions continue to influence contemporary societies. Section 4 outlines the impact of post-colonial

\footnote{This claim echos the new institutionalism approach in political science and economics. Acemoglu et al. (2001) are leading scholars in this field, and most closely associated with the study of colonial legacies.}
2.1. **The Importation of Colonial Economic Institutions**

Colonialism, commonly defined as “the practice of domination, which involves the subjugation of one people over the other” (Kohn and Ready, 2017), pertains to situations in which one of the “core states” in the global world order (a collection of states that wield the most power in the world economic system) uses political, economic, and cultural exploitation to either minimize or eliminate the autonomy of another state or polity (Wallerstein, 1976). Bulhan (2015) illuminates Western scholars’ aversion to accepting culpability for colonial exploitation in using this rather generic definition. He argues that in reality, colonialism was and continues to be a fundamentally European objective. Beginning during Europe’s invasion of the Americas, colonialism involved “material exploitation and cultural domination,” as well as “European self-aggrandizement to compensate for gnawing doubts on the wholeness and integrity of the self.” Bulhan (2015) also articulates a difference between colonialism, which “refers to political and economic relations by which one nation dominates and exploits another,” and coloniality, which “denotes enduring patterns of power as well as a way of thinking and behaving that emerged from colonialism but survived long after its seeming demise.” The two concepts together accentuate the political and economic consequences of colonialism and emphasize the eurocentric epistemology that maintains core states’ hegemonic power over peripheral states across time (Bulhan, 2015).

Stretching the concept of colonialism to cover several nuances for the benefit of fluidity in the text, this thesis uses the word colonialism to mean both colonialism and coloniality, the word colonization to refer to the act of instigating colonialism, and the phrase colonial period to denote the time during which European nations executed their colonial projects. To highlight another oversight in common definitions of colonialism, the words “control”, “occupy”,

state legitimacy on economic informality. Lastly, section 5 ties together these themes into a novel and comprehensive theory of economic informality.
CHAPTER 2. ECONOMIC DUALISM AND COLONIAL LEGACIES

and “exploitation” appropriately accentuate the brutality of colonialism; however, they over-
shadow the important implication that political and economic systems were exported by the
colonizer and imported by the colony. Neglecting to bring this transference of institutions
to the forefront of discussion on colonialism leads to a failure to fully articulate how colonial
institutions shaped economic systems as well as economic growth. V.Y.Mudimbe (1988)
highlights how this oversight leads to the common error of linear developmentalism in the
discipline, meaning that scholars conceptualize developing economies as states with improving market economies rather than states whose economies are experiencing a transition from one economic system to another. V.Y.Mudimbe (1988) articulates:

“[the] proposed jump from one extremity (underdevelopment) to the other (development) is in fact misleading. By emphasizing the formulation of techniques of economic change, the model tends to neglect a structural mode inherited from colonialism. Between the two extremes there is an intermediate, a diffused space in which social and economic events define the extent of marginality.” (V.Y.Mudimbe, 1988)

“The extent of marginality” most obviously refers to the extent to which native inhabi-
tants either benefited from or were exploited by changes to their economic system resulting from colonialism. Yet the implications of Mudimbe’s statement stretch beyond the exploita-
tion of labor. In many cases, colonialism fractured pre-colonial indigenous societies into “formal” and “informal” economic sectors, pushing the informal sector to the periphery of social inclusion (Austin, 2010). Primary “formal” industries sponsored by the colonizer such as mining or agricultural exports were characterized by formal credit markets, licenses, and contracts (Mkandawire, 2010). Conversely, informal work comprised of cash or in-kind exchanges that did not involve any interaction with other institutions like contracts, reg-
ulations, or credit markets. The informal sector, conceptualized as a homogenous pool of labor, only received attention proportionate to the added value it could contribute to the global capitalist system. Grievously, it received little attention based upon its identity as a heterogeneous body of people with complex economic systems who had an acute need for social protections (Meagher, 2017). For example, in southern Africa, Europeans first appropriated land from native Africans then subsequently repressed their wages and took
measures to ensure that Africans only worked on European land in the capacity as laborers rather than as tenants (Austin, 2010). Europeans choose not to foster African enterprises, but rather use African labor for personal profit. The native population lacked any formal recognition of property rights or land ownership, and were subjected to extreme economic precarity stemming from artificially low colonial wages.

These examples illustrate the interdependence of several processes by which Europeans exploited, marginalized, and transferred economic institutions to their colonies. In introducing cash crop export systems, extractive mining institutions, etc., to their colonial territories, Europeans established intrinsically capitalist economic institutions, designed to extract raw materials to be transformed into manufactured goods and eventually sold. Moreover, following capitalism’s innate tendency to stratify societies by creating an elite class that profits form production and trade and a proletariat class that exchanges labor for a subsistence wage, this colonial process inherently marginalized native populations through both economic and extra economic means. In establishing capitalist institutions, Europeans effectively executed the extraction of raw materials and the marginalization of native peoples. In a Marxist framework, capitalism establishes itself in new places in three ways: Real Subsumption occurs when the economic systems in a particular location completely transforms from pre-capitalist to capitalist modes of production. Formal Subsumption occurs when some capitalist exploitative institutions take root, but the majority of the production process remains pre-capitalist, and Hybrid Subsumption occurs when a fledgling capitalist sector is fully established, but the pre-capitalist economic system also continues to function (Marx, 1867). Anievas and Nisancioglu (2015) eloquently synthesize European’s transference of economic institution by framing the colonial process as Hybrid Subsumption. They assert:

“The few institutions that the Spaniards brought with [to Latin America] them were superimposed and grafted onto existing indigenous social relations of production. Indeed significant features of indigenous social structures remained substantially intact for at least several decades of Spanish rule, . . . Slaves themselves were not directly subject to capitalist rules of reproduction and were often dependent on the “natural economy for subsistence…. Due to this element of self-sufficiency, slaves themselves could temporarily withdraw from the market
in ways that merchants and industrialists could not.”

Often, colonial institutions were not independent of indigenous systems, but rather built upon pre-existing power relationships in a region, thereby altering the development trajectory of both the nascent industrial sector and indigenous institutions. While indigenous economic systems universally offered an exit opportunity from the state-imposed or colonial economic system, colonizers influenced the particular form, characteristics, and robustness of the indigenous sector by appropriating and manipulating native institutions for their own extractive ends. Specifically, Western imperialists forcefully dominated native inhabitants in order to acquire new means of production and labor, which they used to extract and commodify raw materials and subsequently accumulate even more capital.

By way of illumination, from 1800 to 1914 Europeans extended their control from 35 percent to 84 percent of total global landmass (Anievas and Nisancioglu, 2015). In Latin America, Spaniards engaged in “mass executions, tortures, and displacement of the existing population under charges of diabolism” (Anievas and Nisancioglu, 2015) in order to eliminate the indigenous peoples’ autonomy, appropriate land, and establish mining infrastructure. In South East Asia the Dutch VOC encouraged merchants to accumulate slave labor to aid in expanding their monopoly over the spice trade (Anievas and Nisancioglu, 2015). In Africa, natives were forced to sign labor contracts with European industries, including mining and agriculture, in order to pay the taxes established by Europeans (Nunn, 2007). In each case colonizers imposed their own economic institutions on the colonies, but did not eliminate the ability of the indigenous peoples to engage in their own methods of exchange, rendering an environment characterized by dualistic colonial and indigenous economic institutions; however, the resiliency of indigenous institutions also depended upon the extent to which the colonizers appropriated land, labor, and capital from the native peoples.

This accumulation by dispossession (Harvey, 2005) established the colonizer as the land owner and holder of wealth, instigating generations of economic inequality. However, capital was unsuccessful at subsuming all labor; even as slaves, indigenous laborers were able to
2.1. THE IMPORTATION OF COLONIAL ECONOMIC INSTITUTIONS

remove themselves from the industrial sector to participate in subsistence, or pre-capitalist economic systems. For example, Nunn (2007) designed a model to explain African underdevelopment in which two equilibria exist: a high production equilibrium in which all members of the society are productive, and a low production equilibrium, in which several members of the economy are unproductive, disincentivizing production among others. Nunn (2007) asserts that when colonization was exceedingly extractive, high production African societies switched to low production societies because “those that were engaged in unproductive activities were better able to avoid European extraction....[They] were exempt from the taxation, forced labor, and general coercion that was inflicted upon the population.” While Nunn does not explicitly connect unproductive work with informal work, it is clear that the people he refers to, including subsistence agricultural workers, roving bandits, etc., are members of the informal economy because their labor is neither registered nor taxed by the State or colonial apparatus. The colonial process thus instigated economic duality between a dominant formal sector and a marginalized subsistence or informal sector.

Economic dualism during the colonial period encapsulates two themes: First, that foreign institutions led to the economic exclusion of the native population during the colonial period, which in turn gave birth to the informal economy, and second, that economically marginalized people exit the formal economy in favor of the informal economy, creating a self-sustaining feedback loop that institutionalizes certain sub-populations as members of the informal economy (Hart, 1973; Breman, 1976; Hirschman, 1957; De-Soto, 2002; Rostow, 1956). Importantly, the formation of dual systems during colonialism was not exclusively contingent upon the process by which capitalism marginalized certain sectors of the population. It also involved the process by which native economic institutions responded and adapted to the introduction of capitalism in the region. For example, in Africa, Austin (2010) articulates, “the paths on which African economies were set by the time of independence are most usefully seen not as necessarily initiated in the colonial period, but as continuations and adjustments from paths of change established before the European partition of
the continent.” In other words, African economies comprised a particular set of institutions that survived, yet adapted to the imposition of the colonial institutions, leading to a “dualism of prevailing institutions that leads to divergent economic subsystems within society” (Boke, 1953). Austin (2010) claims that the “old Africa sector” or native economic system, directly became the informal sector and the “old European sector”, or colonial economic system, became the formal sector following independence. Two colonial phenomena exposed in Austin’s analysis form a central component to the hypotheses this thesis advances: (1) the imposition of colonial economic institutions, and (2), the characteristics and development of pre-colonial institutions.

Many dualists who study economic informality without evaluating its relationship to colonialism (Hart, 1973; Tokman, 1972; Portes and kelly Hoffman, 2003; Banerjee and Duflo, 2011) assert that informal economic activity results from a structural problem in which population growth outpaces economic growth. The formal economy does not have the capacity to absorb the growing population, especially in cases where the majority of the population lacks skill-sets required by formal or industrial jobs. Increasing industrialization and inequality in developing countries further exacerbates the discrepancy between skilled employment opportunities and economic opportunity for the majority of the working class. Devoid of other opportunities, individuals turn to informal self-employment. However, informal employment rarely provides the same opportunities for upward social mobility as formal employment. Informal workers, as “reluctant entrepreneurs” (Banerjee and Duflo, 2011), are forced to maintain small, low-capital, and unprofitable businesses as a primary mechanism for survival. Accordingly, informal laborers, as a marginalized subset of the economy, maintain few connections with formal enterprises or government regulation.

Critics of this particular invocation of economic dualism push back against the notion that the formal and informal sectors are separate from one another (Baker and Velasco-Guachalla, 2018). However, these critiques largely address the characteristics of the informal economy, and not its relationship to colonialism. To elaborate, evidence identifies variation in levels of
inter-connectivity between the formal and informal economy (Baker and Velasco-Guachalla, 2018). Often, informal workers supply labor or materials to formal corporations through contracting (Chen, 2012). Indeed, “the labor market is characterized by substantial mobility of workers between the formal and the informal sectors” (Levy, 2008). Other common dualist assumptions also face controversy: Baker and Velasco-Guachalla (2018) find no evidence to support the prevailing hypotheses that informality influences political ideology, or that informal workers are politically right leaning or maintain more capitalist values than formal employees. Importantly, these findings that informal workers are fluid between sectors, are sometimes left leaning, and don’t necessarily maintain more capitalist values does not refute the claim that colonialism instigated economic dualism. The assumptions made about the informal sector that these criticisms refute erroneously conceptualize economic dualism as a discrete split between formal and impoverished self-employed workers in the capitalist system, while failing to acknowledge that informality is a remnant of a pre-capitalist system. Therefore, the critiques advanced by Baker and Velasco-Guachalla (2018) call into question some dualists’ notion that informality is a product of poverty, not whether economic dualism exists, nor the claim that informality is a product of colonialism.

### 2.2 The Durability of Pre-Colonial Legacies

To elaborate on the claim that economic informality is in part a remnant of indigenous institutions that either adapted to or avoided complete domination by colonialism, evidence substantiates the institutional “stickiness” and prevailing salience of pre-colonial legacies. Modern day formal institutional spaces such as counties, precincts, provinces, etc., that enjoy a high degree of overlap with a pre-colonial polity are frequently better at providing social services because of local coordination among elites (Wilfahrt, 2018). Specifically in the case of Nigeria, regions with a high degree of pre-colonial centralization are better at distributing public goods today provided that those regions complied with colonial policy thereby avoiding
punishment from the colonial regime (Archibong, 2019). Often, the effectiveness of present
day formal institutions still depends upon the prominence of pre-colonial identities in society.
Conversely, Bhandari (2019) finds evidence in Senegal that in economic exchanges, buyers
tend to fear that sellers could breach a contract with impunity if they indicate connectivity
to formal political institutions. Further research might link mistrust in formal government
institutions to the prevailing salience of pre-colonial governance structures.

The noted salience of these pre-colonial identities is relevant to economic informality
in a number of ways. First, it might offer an explanation for the way particular political,
economic, and social institutions developed over time, shaping the informal economy. For
example, pre-colonial provinces in India that experienced more frequent attacks from foreign
provinces developed more powerful governments that were adept at collecting taxes from
constituents to provide defense as a public good. These regions were subsequently better
equipped to provide other public goods besides defense, such as infrastructure and investment
in agriculture, instigating a trajectory of higher levels of inclusive economic growth in the long
run, even when controlling for ethnic differences and British colonization (Dincecco et al.,
2019). Regions with stronger governments and inclusive tax regimes may have experienced
lower levels of informalization. These ideas will be further expounded in the next section. In
contrast, well-developed pre-colonial institutions in the Philippines, namely established trade
routes and resource extraction systems, incentivized colonizers to co-opt these institutions for
extraction purposes, rather than establishing new institutions that would eventually motivate
inclusive economic growth (Kim, 2009). In both cases, the configuration of pre-colonial
institutions influenced the long term development of political and economic institutions even
though both states experienced intensive colonization.

Second, the centrality of pre-colonial identities might lend insight into how communities
responded to imported economic systems, developments, and policies. Scholars frequently
refer to direct rule vs indirect rule in the colonies; the former delineates systems with Eu-
ropean governors and intensive assimilation practices, while the later refers to systems in
2.3. THE DURABILITY OF COLONIAL LEGACIES

which Europeans co-opted indigenous power structures, allowing native leaders to remain in power. However, Lawrence (2016) complicates this dichotomy by illustrating how both strategies were used in French Algeria. She articulates that colonial administrators maintained more agency in guiding colonial policy than the metropoles, and often responded to the the level of organization and risk of rebellion among the native population. Third, pre-colonial identity salience offers an explanation for variation in informal economy size by delineating an explanation for variation in the legitimacy of imported colonial economic systems. For example, Berinzon and Briggs (2019) directly confront the long-held notion that colonial institutions have considerable staying power by using textual analysis of West African Penal Codes to illustrate that colonial-institutional decay is both substantial and heterogeneous across colonies of like colonizers. Pre-colonial legacies could account for why some colonial institutions were more sticky in some regions than in others by identifying which institutions were perceived of as legitimate. In this regard, pre-colonial legacies are a critical component of the ultimate impact of colonial legacies on societies, and thus central to the formation, persistence, and variation among informal economies.

2.3 The Durability of Colonial Legacies

Similar to the prevailing influence of pre-colonial legacies on contemporary societies, the lasting impact of colonial legacies are likewise clear. As former colonies formed new governments following independence, they inherited power structures and economic dualism left by their colonial predecessors. The extent of economic duality varied across post-colonial states. A dynamic range of institutions that propagate colonial legacies, including the marginalization of the informal sector, sheds light onto the variation in informal economy size at the time of independence and through present day. For example, differences in colonial tax structures and welfare regimes, two interdependent institutions, hold explanatory power over variation in economic informalization by accounting for discrepancies in the labor integration process.
CHAPTER 2. ECONOMIC DUALISM AND COLONIAL LEGACIES

during the colonial and post-colonial periods.

Drawing a distinction between two types of colonial economic systems, cash crop economies and labor reserve economies, Mkandawire (2010) theorizes that the level of informalization within an economy was triggered by the method that European colonizers used to incorporate indigenous labor into their economic systems. Cash crop economies favored indirect rule and local leadership. The colonizers typically allowed indigenous people to retain control of the land and production process, lending them considerably more bargaining power in the market process. Taxation took place mostly through marketing and trade, meaning that informal community based systems took responsibility for social welfare policies rather than the colonial apparatus. These economic systems coincided with peasant colonies, so named because indigenous populations retained land ownership. Indigenous laborers earned higher incomes and maintained greater levels of equality within cash crop systems during the colonial period than their wage-labor counterparts (Austin, 2010). However, as an agricultural society, peasant colonies were disincentivized from establishing industrial infrastructure that would allow for economic growth following colonization.

In contrast, labor reserve economies saw a high influx of colonial settlers who adopted more of a direct rule approach by restricting indigenous labor to work for European farms and industries, and blocking other sources of income. These colonial white settlers also needed a strong state apparatus to maintain control of the indigenous population and meet their own needs, and thus implemented high personal taxes and a comprehensive welfare regime for the white population. The concentration of land ownership within the white population and disparity in social services resulted in higher levels of inequality during the colonial period than in cash crop economies. However, because Europeans appropriated a large proportion of the land for industry in labor reserve economies, these colonies inherited a better foundation for manufacturing and industrial development. In this regard, settler colonies acquired a better “record for structural change” (Austin, 2010) than peasant or plantation economies. Therefore, while indigenous populations in plantation economies enjoyed greater
2.3. THE DURABILITY OF COLONIAL LEGACIES

economic empowerment in the years immediately following the colonial period, the legacy of extractive institutions undermined growth in the long run. Conversely, settler colonies fared better in terms of long run economic growth due to the colonial institutional foundation for manufacturing and industry (Acemoglu et al., 2001; Austin, 2010; Kohli, 1994). While the differentiation in economic growth between settler colonies and cash crop colonies does not directly pertain to economic informality, the dichotomy clearly exemplifies how colonial legacies continue to influence contemporary economic outcomes.

Drawing a clearer connection between these colonial legacies and economic informality, settler colonies with labor reserve economies incorporated a larger proportion of the indigenous population into the colonial state apparatus than cash crop colonies. This framework for wage-labor, combined with a fledgling industrial sector and the establishment of systematic tax and welfare structures allowed for the expansion of the formal state economic apparatus at the time of independence, and ultimately lead to higher levels of economic growth and lower levels of informalization (Mkandawire, 2010). Additionally, economic duality was more prominent in cash crop economies where the indigenous population was able to maintain their own economic systems than in labor reserve economies where Western institutions overtook indigenous economic systems. While neither Acemoglu et al. (2001) nor Austin (2010) nor Kohli (1994) discus informalization, the scholars do point to greater levels of institutional economic change via tax systems, land ownership, welfare systems, etc., in some colonies than in others, which influenced the extent to which economic duality manifested in society, as well as how indigenous communities responded to colonial institutions. The prevailing influence of colonial legacies on economic growth substantiates the claim that economic dualism as a colonial legacy derivative from a collection of colonial institutions continues to influence economic informality.
2.4 Post-Colonial State Legitimacy

The combined influence of pre-colonial and colonial institutions following the colonial period reveals the complex political, economic, and social landscape that post-colonial leaders navigated following independence. The state-building process proved particularly challenging because it necessitated a base level of legitimacy in order to motivate constituents to consent to the state apparatus. Legitimacy itself is a complex concept. Political legitimacy is often categorized as normative or descriptive. Normative legitimacy describes scenarios where behavior is legally or morally authorized, and descriptive legitimacy describes scenarios where constituents accept and believe in governing institutions (Peter, 2017). The relevant type of legitimacy for this thesis is descriptive legitimacy, and refers in this case to the degree to which indigenous peoples accepted the post-colonial government as an authentic governing body. Specifically pertaining to the colonial and post-colonial contexts, Englebert (2000a) bisects descriptive legitimacy into two different types. The first, horizontal legitimacy, is defined as the consensus of the community over which a single rule is extended (i.e. geographic space). The second, vertical legitimacy, measures the degree to which the ruler in a region has the “right” to rule over a particular population.

Englebert (2000a) explicitly illuminates the impact of post-colonial state legitimacy on development by measuring the effects of horizontal and vertical legitimacy on economic growth. He finds that the greater the congruence between pre-colonial and post-colonial institutions, i.e. the greater the legitimacy of the post-colonial state, the greater the likelihood of higher levels of economic growth in the long run. States whose post-colonial institutions were exceedingly different from pre-colonial institutions suffered through a legitimacy crisis, inciting neopatrimonial government policies and economic stagnation. Neopatrimonialism refers to the combination of formal post-colonial state institutions and informal institutions that maintain a patrimonial relationship between a single leader and their constituency. Usually this takes place through patronage and clientelist networks wherein the leader directs state resources towards benefiting individual elites in exchange for political support. Leaders
who lack legitimacy tend to turn to neopatrimonialism because it is a faster and less costly method of consolidating support than state-building. However, because neopatrimonialism inherently entails corruption and repression, constituents are more likely to exit the State in favor of the informal economy when faced with a neopatrimonial leader (Englebert, 2000b).

Moreover, many post-colonial states tended to lack legitimacy because independence leaders actively undermined the legitimacy of the colonial apparatus during the colonial period, which became the formal state-apparatus following independence (Ekeh, 1975). For example, in many African states, the fledgling bourgeois African class encouraged the “lay” African to,

“sabotage the administrative efforts of the colonizers. ... The African who evaded his tax was a hero the African laborer who beat up his white employer was given extensive coverage in the newspapers. In general, the African bourgeois class, in and out of politics, encouraged the common man to shirk his duties to the government or define them as burdens” (Ekeh, 1975).

As many independence leaders campaigned on reducing the “colonial burden,” or obligations to the State, namely the burden of taxation (Ekeh, 1975), leaders who attempted to maintain the same colonial tax structure following independence delegitimatized themselves in the same way that they had delegitimatized colonizers as inauthentic leaders.

Ekeh’s (1975) observations invoke the concept of vertical legitimacy. Essentially, post-colonial African leaders were perceived as illegitimate because they adopted colonial institutions that constituents actively opposed because they were both exploitative and different from pre-colonial institutions. Englebert (2000b) stipulates that leaders who inherited illegitimate states subsequently attempted to legitimatize themselves by either forcing a new national identity upon their constituency or using state resources to create clientelistic networks of support. Development projects were infeasible because they necessitated a base level of legitimacy that fledgling leaders lacked. Instead, they engaged in the “reciprocal assimilation of elites” (Bayart, 1989), that is co-opting the loyalties of other elites into the state regime in order to stabilize political power. However, diverting resources to these patronage based relationships created a large, single-party top down political structures, and
further inhibited inclusive growth strategies, ironically undermining the State’s legitimacy. Leaders also attempted to substantiate their legitimacy by establishing standards comparable to Western colonizers. Elites wanted to establish institutions that were as good as the European ones, requiring that states open up the economy to foreign markets, teach colonial languages in schools, and adopt Western political structures (Ekeh, 1975). They refrained from establishing objectives that were different from or better than European objectives (Ekeh, 1975). Though these leaders assimilated to European standards in an attempt to legitimatize power following independence, they miscalculated what actions would garner legitimacy, and ironically further undermined their own legitimacy from the perspective of the indigenous constituency.

In contrast, horizontal illegitimacy as a colonial legacy stems from the fragmentation of ethnic groups that occurred when colonizers created “artificial” state borders without regard to pre-existing polities. Various metrics for measuring the degree to which an ethnic group was fractured by colonial borders include, ethnolinguistic fractionalization (ELF)\(^2\) (Easterly and Levine, 1997), degree of boarder “squigglyness”\(^3\) (Alesina et al., 2011), and the percentage of the population within a state belonging to a partitioned ethnic group (Englebert, 2000b), all measures negatively correlate with productivity, economic growth and public good provision. These metrics also measure horizontal legitimacy as they capture the difference between the geographic territory of the post-colonial territory and the geographic territory of the pre-existing polity. The greater the extent to which ethnic groups within a territory were portioned by colonialism, the more illegitimate the post-colonial state.

Nunn (2008) tangentially illustrates via a comprehensive historical study that the colonial slave trade was an important factor in ethnic fractionalization (the partitioning of ethnic groups), which subsequently inhibited economic development. Theoretically, individuals

\(^2\)A measure of the likelihood that two individuals randomly selected from within the same country will be of different ethnicites

\(^3\)A new metric of ethnic fragmentation designed to measure borders “squigglyness”, which indicates to what degree a state’s borders were naturally formulated or artificially imposed by colonial powers. Generally, the straighter the borders, the more artificial the because colonial powers tended to draw relatively straight boundaries when demarcating colonial boundaries
prefer to coordinate around pre-colonial identities, i.e. co-ethnics, families, tribes, etc., indicating that institutions that bisect or scramble these groups lack legitimacy. States that were “artificially” created by colonial borders also lacked the opportunity to build nationalism or legitimacy over time by collectively engaging in interstate wars to claim ownership over a particular territory as was the case for European states (Herbst, 1990).

Though some evidence indicates that many former colonies actually have high levels of nationalism, which would also indicate high levels of post-colonial state legitimacy, a study conducted by Bhandari and Mueller (2019) finds that nationalism may be derivative of kinship rather than confidence in the State. They discover via survey data from the marginalized borderlands of Niger and Burkina Faso where the State is particularly weak that nationalism stems from a tight association between belonging to a particular family, and that family being rooted in a particular State. These individuals are more likely to seek out the informal exchange of insurance, food, and housing through kinship networks than they are to demand formal provisions from the State. Therefore, even though scholars have recorded high degrees of nationalism within former colonies or “artificial states”, this does not mean that individuals find the State legitimate. In fact, Banerjee and Duflo (2011) illustrates that in some cases, individuals with a strong sense of nationalism are even more likely to participate in the informal economy than the formal State, because their sense of nationalism does not translate to the belief that the State will provide public goods services.

Regardless of whether the illegitimacy of the post-colonial state stems from vertical or horizontal legitimacy, colonialism is the clear culprit of the absence of legitimacy. When indigenous post-colonial leaders assumed power, they inherited the same political structures, economic systems, and geographic boarders established by their colonizers (Ekeh, 1975). Consequentially, they also inherited the relative unimportance that natives felt towards the state apparatus, which ironically was partially inspired by independence leaders during the colonial regime. For example, Ekeh (1975) indicates that in Africa,

“There [was] clearly a transfer effect from colonialism to post-colonial politics... the line
of distinction between allegiance to alien rulers and to a new African bourgeois ruler was a thin one in the mind of the lay African...the African bourgeoisie had no basis of legitimacy independent of colonialism.

Because post-colonial leaders adopted an illegitimate state structure created by “alien rulers”, opposition to certain government policies translated into opposition to the State apparatus itself. Rather than using mechanisms internal to the political system like elections to voice dissent, individuals were more likely to exit the state apparatus because the entire construct of the State was a product of colonialism (Englebert, 2000b).

Moreover, Ekeh (1975) also articulates that Africans participate in two publics, the primordial public consisting of their family and ethnic networks and the civic public consisting of the state apparatus. Africans endeavor to contribute to the primordial public in exchange for a sense of belonging, while materially drawing from, and only begrudgingly contributing to the civic public. Because individuals feel a moral obligation to contribute to the primordial public but not the civic public, they are incentivized to extract resources from the civic public to give to the primordial public. Therefore, for African states in particular, it may be that not only is the state apparatus illegitimate as a colonial legacy, but that the very idea of the State, as a colonial construct, is illegitimate, because Africans do not feel obligated to or believe in contributing to the civic public through taxation, public service, etc. Although this phenomenon wherein the State as an idea is illegitimate may only apply to African states, it is clear that the phenomenon wherein the State as an institution is illegitimate applies to nearly all former colonies. In these cases some individuals are either excluded from, or voluntarily exit the state apparatus choosing instead to participate in the informal economy. Therefore, variation in the legitimacy of the post-colonial state, clearly influences individuals “exit decision” from the formal state.
2.5 A Theory of Informal Economy Size

Thus far this thesis has expounded upon three interdependent claims: First, colonialism instigated economic dualism between the colonial economic system which eventually became the formal sector and the indigenous economic system which eventually became the informal sector. The duality in institutions creates an exit opportunity for individuals to exit the formal state apparatus and join the informal economy. Second, pre-colonial and colonial institutions influenced the extent to which economic dualism manifested during colonialism, and the “stickiness” of these institutions accounts for how economic dualism has been perpetuated across time. Third, the legitimacy of the post-colonial state, stemming from pre-colonial and colonial institutions influences whether or not groups and individuals take the opportunity to exit the formal state and participate in the informal economy. Tying these claims together, this thesis theorizes that the extent to which economic institutions changed during the colonial period and constituents’ responses to these changes largely influences present day informal economy size.

There are two primary mechanisms that emerge in the literature linking institutions from the colonial era (including pre-colonial, colonial, and post-colonial institutions) to variation in the sizes of contemporary informal economies. The first details that the greater the integration of colonial economic institutions into the colonial environment the smaller the resulting informal economy. Settler colonialism inherently involved establishing economic and political institutions that served the white population during colonialism as well and the native population following independence. These institutions laid the foundation for higher levels of industrialization (Austin, 2010) and economic growth in the long run (Acemoglu et al., 2001; Kohli, 1994). As previously established, economic informality does not perfectly correlate with economic growth or industrialization, yet the possibility remains that there is some degree of overlap between the institutional endowments that allowed a state to follow a trajectory of economic growth and those that led to lower levels of informalization. Observationally, settler colonies that experienced a significant influx of settlers relative to
the native population, including the United States, Canada, Australia, and Ireland, tend to have very low levels of economic informality today.

Mkandawire’s (2010) dichotomy between labor reserve economies (which involved a high influx of settler) and cash crop economies (characterized by indirect rule and a small proportion of settlers) establishes the clearest connection between changes in economic institutions during colonization and informal economy size. Labor reserve economies simply incorporated a greater percentage of the native population into a wage-labor and income tax system, leading to lower levels of informalization in the long run. This thesis substitutes a variable I call “economic transformation” for Mkandawire’s labor reserve economies for the following reasons: First, economic transformation is measured by a composite index which includes the establishment of mining industries, gold extraction, investment in infrastructure, investment concentration, and the concentration of trade with a colonial metropole (Ziltener et al., 2017). These elements correlate strongly with settler colonialism and many characteristics of labor reserve economies, most notably, the physical infrastructure needed for resource extraction. Secondly, Mkandawire only classifies African countries. Therefore, using economic transformation opens up the scope of analysis to colonial territories outside of Africa. Third, Mkandawire (2016) admits that “in some cases the various forms of market incorporation took place within the same economy,” making it difficult to classify some former colonies as either labor reserve economies or cash crop economies. In contrast, economic transformation provides a continuous measure of economic institutional change at the state level thereby accounting for multiple colonial economic systems within the same state.

The logic of this mechanism lays the foundation for hypothesis 1:

**H1: As economic transformation increases, informal economy size will decrease**

This hypothesis exclusively accounts for decisions made by the colonizer and the independent impact of colonial legacies. It does not account for how changes in the economic system during the colonial period may have depended upon pre-colonial institutions, or how the
resulting impact of colonial legacies may have been influenced by the legitimacy of post-
colonial leaders and institutions.

The second mechanism grows out of the concept of legitimacy; it specifies that the greater
the legitimacy of a post-colonial state, the smaller the resulting informal economy size. Sub-
stantiated by evidence linking ethnic fragmentation, as well as corrupt or illegitimate lead-
ers to adverse development outcomes including, economic stagnation (Easterly and Levine,
1997; Englebert, 2000a; Alesina et al., 2011), low productivity (Nunn, 2007), poor public
good provision (Easterly and Levine, 1997), and low quality governance (Englebert, 2000b),
illegitimacy could motivate individuals to prefer the informal economy to the State for public
goods, insurance, and other services.

The connection between legitimacy and informality is most succinctly conveyed by Engle-
bert’s (2000b) discussion of post-colonial state legitimacy. In relatively legitimate states the
continuity between pre-colonial and post-colonial governance structures gave way to better
public administrations, investment in nation building, and inclusive growth strategies. In
turn, positive development outcomes encouraged constituents to consent to and participate
in the formal institutions of the State. In contrast, highly illegitimate states concentrated
on fostering nationalism in order to substantiate the power of new ruling parties rather than
building state capacity (Englebert, 2000b). These strategies gave way to personalistic single-
party and dictators, as well as nepotism, clientalism, and corruption. Illegitimate states
motivated citizens to exit the state on two fronts; first, illegitimate leaders often turned to po-
itical oppression, antagonizing constituents, and secondly, state institutions were perceived
as foreign imports and thereby not credible ruling bodies (Englebert, 2000b).

The logic of this second mechanism provides the basis for two hypotheses pertaining to
Englebert’s (2000b) two types of legitimacy:

**H2a:** Being a vertically legitimate state will result in an informal economy
that is, on average, smaller than an informal economy in a vertically illegitimate
state.
**H2b:** An increase in horizontal legitimacy will produce a decrease in informal economy size.

These hypotheses appropriately accommodate variation in pre-colonial and colonial institutions. They also account for the fact that the interactions between pre-colonial and colonial institutions may produce variation in informal economy size through the mechanism of post-colonial state legitimacy. However, these hypotheses neglect to consider the first mechanism associated with the first hypothesis (H1), that colonial institutions are “sticky,” and explain the variation in informal economy size even when controlling for regime type, location, colonizer, ethnic fractionalization, etc.

The contradictions of these two prevailing mechanisms are clear. In the first, the integration of colonial economic institutions into pre-colonial societies transforms the economic organization within colonies, resulting in greater labor integration and smaller informal economies. In the second, the imposition of colonial institutions on pre-colonial polities increases the illegitimacy of the state, subsequently motivating exit from the formal economy. Seeking to rectify this divide in the literature, this thesis makes the novel proposition that informal economy size is dependent upon both economic transformation and post-colonial state legitimacy. Namely, economic transformation can not independently explain variation in informal economy size, because the impact of colonial legacies depended upon post-colonial elites’ ability and penchant to maintain certain colonial institutions following the colonial period. Noting the incentives that indigenous post-colonial governments had to limit informal economic activity in order to drive economic growth, Mkandawire (2016) states, “not surprisingly, the post-colonial state may also seek to maintain some barriers against informalisation – and indeed most of them did so.” Yet Mkandawire (2016) does not articulate how former colonies with labor reserve economies maintained barriers to informalisation, or why most, but not all, former labor reserve colonies were able to do so.

Post-colonial state legitimacy lends insight into the relative success of post-colonial governments at maintaining colonial institutions; in illegitimate states under neopatrimonial
rule, “the efficiency of the bureaucracy as measured by its capacity to design and implement policies vacillates” (Englebert, 2000b), leading to the eventual “collapse of the formal state” (Englebert, 2000b). Illegitimate states therefore had little capacity to maintain the tax and welfare systems that Mkandawire (2016) hypothesizes linked labor reserve economies to low levels of informalisation. Legitimacy might also explicate why Africa, the continent with the highest concentration of “artificial” states, also has the highest concentration of large informal economies.

Cognizant of the possibility of complex interactions between the two mechanisms, this thesis uniquely proposes a third primary hypothesis using an interaction term that combines post-colonial state legitimacy with economic transformation:

H3: Higher levels of economic transformation led to smaller informal economies in vertically legitimate vs illegitimate states

I expect that economic transformation will correspond with lower levels of economic informal-ity when states are vertically legitimate. Essentially, the impact of economic transformation during the colonial period on present day informal economy size is contingent on post-colonial state legitimacy. Legitimacy represents the capacity of post-colonial states to capitalize on a foundation of certain economic institutions established during the colonial period and foster long term inclusive growth policies. States with low levels of post-colonial state legitimacy and high levels of economic transformation render larger informal economies than states with higher levels of legitimacy and economic transformation, but smaller informal economies than states with lower levels of post-colonial state legitimacy and economic transformation. This hypothesis is rooted in the theory that colonialism instigated economic dualism, providing an opportunity to exit the formal state and join the informal economy, yet is also sensitive to the complex relationships between pre-colonial, colonial, and post-colonial institutions, and their lasting impact on society.
Chapter 3

Methods

The goal of this study is to examine how the transformation of economic institutions in colonies during colonialism (hereafter referred to as economic transformation) and post-colonial state legitimacy influenced variation in the sizes of state-level informal economies in the long run. More specifically, this thesis addresses a critical short-coming in the literature on colonial legacies and post-colonial institutions by uniquely investigating whether the interaction between economic transformation and post-colonial state legitimacy better explains variation in informal economy size than either variable respectively. Cognizant of specific limitations to any singular method of analysis, this thesis employs two complimentary methods: a regression analysis and process-tracing. The regression analysis statistically evaluates the correlation between economic transformation, post-colonial state legitimacy, and informal economy size, while controlling for other potential causal variables that may influence informality. This method not only establishes statistical confidence in the relationship between economic informality, economic transformation, and state legitimacy, but estimates the magnitudes of these relationships, enabling a comparison of the relevance of each respective variable.

However, regression analyses lack the capacity to explain the mechanism by which one variable causes variation in another variable. For example, a perfect correlation between
post-colonial state legitimacy and informal economy size would indicate that both factors occur simultaneously in the same state, and might even offer compelling evidence that legitimacy influences informal economies, but it would not explain how post-colonial state legitimacy leads to a change in informal economy size. In contrast, process-tracing involves examining diagnostic evidence to formulate a historical narrative that illuminates causal inferences. In this text I use process-tracing as a method of cross-validating the statistical analyses. I compare the evolution of institutions in three West African cases: Senegal, the Côte d’Ivoire, and Cabo Verde. Designed as a most-similar case comparison, I will explore how similarities and differences between these states’ indigenous institutions, colonial experiences, and post-colonial state legitimacy explain variation in contemporary state-level informal economy size. While this application of process-tracing is insufficient for independently establishing causality, it will lend insight into the mechanisms that undergird correlations revealed in the regression analyses.

Aside from exploiting the stated comparative advantages of each technique in evaluating my research question, this dual methodological approach serves two ends: First, it recognizes informal economic activity as a global phenomenon. Though economic informality is often more pervasive in developing states, every state in the world experiences some degree of economic informality. The global sample in this thesis plays an important role in refraining from conceptualizing informality as exclusively a product of underdevelopment. Secondly, the case studies in particular look to orient the analysis around informal economy members as active rather than passive participants in the evolution of economic institutions. Specifically, I endeavor to highlight the decisions and agency of the indigenous populations, elevating their actions to the same level of importance in this analysis as the decisions and actions executed by colonizers. I also aim to incorporate the voices of independence leaders into the text as primary-source evidence. In emphasizing how indigenous populations responded to colonization, I hope to centralize the framework of this analysis around the interactions between indigenous and colonial institutions. This thesis does not mean to frame informal activity
as an inevitable outcome of colonialism, but rather emphasize how colonialism instigated a division between the formal and informal sectors in local economies, thereby influencing the menu of choices faced by individuals in historical and contemporary settings by creating an exit opportunity from the “formal” economy.

This chapter will accomplish the following: Sections 3.1 and 3.2 will explain my theoretical model and regression equation respectively. The theoretical model discusses the primary concepts that I theorize cause economic informality and justifies the selection of variables that I employ to measure these concepts. It also articulates the specific hypotheses that I investigate in this thesis. Section 3.2 defines the estimating equation that I use in my fully specified model and justifies the inclusion of several control variables in this model. Both sections introduce the presentation and discussion of the regression results detailed in chapter 4. Lastly, section 3.3 discusses descriptive statistics, noting certain cases that provide additional evidence to substantiate my primary analysis.

3.1 Theoretical Model

The goal of this study is to empirically test whether an interaction between post-colonial state legitimacy and economic transformation better explains variation in state-level informal economy size than either term respectively. Affirmative findings would effectively rectify a divide in the literature by highlighting the long term effects of the interactions between pre-colonial and colonial institutions. In this framework, state-level informal economy size is a function of economic transformation and post-colonial state legitimacy. Post-colonial state legitimacy comprises vertical and horizontal legitimacy. Because vertical legitimacy measures the “institutional clash” (Englebert, 2000b) between pre-colonial and post-colonial institutions, compared to horizontal legitimacy, which measures the geographic scope over which particular institutions are accepted, the interaction term combines economic transformation with vertical legitimacy. Therefore, variation in informal economy size can be
modeled as:

\[
InformalEconomySize_{ij} = f(Vlegit_i, Hlegit_i, EconTrans_i, VLET_i)
\]  

(3.2)

Due to the use of panel data, this model is constructed such that the unit of analysis is state-year, which is represented by the subscript \(ij\). Specially, \(j\) denotes variation across time, while \(i\) represents variation across states for time-invariant data. In the theoretical model above, \(InformalEconomySize_{ij}\) represents informal economy size in state \(i\) in year \(j\). \(Vlegit_i, Hlegit_i,\) and \(EconTrans_i\) represent vertical legitimacy in state \(i\), horizontal legitimacy in state \(i\), and economic transformation in state \(i\) respectively. \(VLET_i\) is the interaction term between economic transformation and vertical legitimacy in state \(i\).

As stated, I use two variables to measure the concept of post-colonial state legitimacy. Vertical legitimacy is the degree to which constituents perceive that a particular ruler has the right to rule within a polity. To measure this concept, I use a dummy variable that essentially separates states that were “artificially created” (Alesina et al., 2011) from states that evolved from locally developed polities, as well as states that were influenced by colonialism, but maintained the majority of their indigenous institutions. States are coded based on whether they meet five dichotomous criteria outlined by Englebert (2000b). Legitimate states take on a value of 1, while states that fail to meet any of the five legitimacy criteria take on a value of 0.\(^1\) As a dichotomous variable, this measure of vertical legitimacy does not capture the full range of legitimacy and therefore could be improved upon. For example, there might be higher levels of legitimacy in a state that was not colonized (criteria one) than in a state that was colonized but regained its previous sovereignty following independence (criteria two), although both states are coded as “legitimate” relative to states who meet neither

\(^1\)The five criteria determining vertical legitimacy are as follows: 1) The country was not colonized in modern times, 2) the country was colonized but recovered its previous sovereignty after independence, 3) the country was created by colonialism but was not settled before colonization, 4) the country was inhabited prior to colonization but the population was physically eliminated or marginalized in the process of colonization, 5) the country was colonized but did not experience severe violence to preexisting political institutions. If a country meets any of these five criteria, it receives a 1 for vertical legitimacy.
of these criteria. Regardless of these faults, I employ this measure of vertical legitimacy because it is the only measurement (to this author’s knowledge) that captures the effects of changes in institutions during colonialism not pertaining to change in racial, ethnic or religious groups.

Horizontal legitimacy measures the extent to which indigenous populations were fractured by colonial administrations. It is a categorical variable coded by Ziltener et al. (2017) that takes the value of 0 if a negligible percentage of the post-colonial state population belongs to an ethnic group that was fractured by colonial borders, 1 if there was a moderate colonial partition effect, and 2 if more than half the population belongs to an ethnic group that was partitioned by colonial borders. Similar to vertical legitimacy, this measurement fails to capture the full spectrum of variation in legitimacy. For example, a state with 95 percent of its population belonging to an ethnic group partitioned by colonial boarders might experience substantially different challenges to governance and public good provision than a state in which 51 percent of the population belongs to an ethnic group partitioned by colonial borders. Englebert (2000b) aptly uses a continuous variable, the percentage of the population partitioned by colonialism, to measure horizontal legitimacy. However, this data is unavailable for a global sample size. Despite this limitation, the comparison between high and low levels of horizontal legitimacy enabled by this measurement will clearly indicate whether or not economic informality is effected by horizontal legitimacy.

Economic transformation, also coded by Ziltener et al. (2017), is a composite measure that incorporates colonial trade policy and investment concentration, investment in infrastructure, as well as the quantity of plantations and degree of mining in a colony, including, gold, silver, and diamond extraction. States receive a score from 0 to 100 with low values representing minimal economic transformation. This measurement is imperfect for two primary reasons: First, select components of the aggregate index might have contradicting impacts on economic informality. For example, in accordance with Mkandawire (2010), investment in agricultural infrastructure in cash crop economies might motivate higher levels
3.1. THEORETICAL MODEL

of economic informality than investment in mining infrastructure in labor reserve economies. However, economic transformation remains the best variable for measuring the change in economic institutions that transpired during colonization because it effectively captures the transition from pre-capitalist systems of production and exchange to capitalist systems of production and exchange predicated on resource extraction. The interaction between economic transformation and vertical legitimacy should capture the significant variation that exists between former colonies and “naturally evolved” states, as well as the more nuanced variation in economic transformation among legitimate and illegitimate states.

Lastly, the measure for informal economy size is lifted from Elgin and Oztunali (2012), who compile the most comprehensive time series data set on informal economy size by using a two sector dynamic general equilibrium model to estimate informal economy sizes from 1950 to 2009. The authors construct a function where the representative household has access to informal and formal production technologies, and maximizes utility and consumption subject to limited endowments of time and capital. The total endowment of time is comprised of labor in the formal and informal sector. The model is then calibrated for known values pertaining to formal employment, government spending, capital growth, the discount factor, and investment, to arrive at a metric for informal economy size as a percentage of official GDP for every state $i$. A summery of the hypotheses linking informal economy size to the three primary independent variables of interest are listed in figure 3.1

There is one primary challenge embedded in this model. This estimating equation assumes a linear relationship between informal economy size and economic transformation. However, it is plausible that this relationship is instead characterized by a U shape. Following the logic of economic dualism, perhaps colonial institutions did not instigate duality in institutions until some threshold of economic transformation was met at which point the change in economic institutions was sufficient to create two economic sectors. Conversely, economic transformation only instigated significant economic dualism until another threshold at which point indigenous systems became increasingly dominated by the colonial economic
apparatus, thus eliminating or reducing an exit opportunity. Settler colonies like the United States or Australia are examples of where the indigenous systems were almost completely eliminated by the colonial economic systems.

This phenomena also impacts the interaction term. I hypothesize that higher levels of economic transformation produce smaller informal economies in vertically legitimate vs vertically illegitimate states. However, if the effects of vertical legitimacy on economic informality depend upon the exit opportunity created by economic dualism, it is possible that high levels of economic transformation will inherently correlate with vertically legitimate states. Conversely, the threshold levels in the economic transformation process may vary by state depending on levels of legitimacy in each respective state. It is beyond the scope of this thesis to determine where in the economic transformation process these thresholds might fall. To avoid biasing the results by picking arbitrary thresholds, the primary hypotheses in this text assume a linear relationship between informal economy size and economic transformation. The case studies may lend insight into whether economic transformation and vertical legitimacy are interdependent.
3.2 Regression Equation

Using state-year as the primary unit of analysis, this thesis uses panel data that extends from 1960 to 2018, and covers 217 states. My primary estimating equation is:

\[
\text{InformalEconomySize}_{ij} = \alpha + \beta_1 \text{Vlegit}_i \\
+ \beta_2 \text{Hlegit}_i \\
+ \beta_3 \text{EconTrans}_i \\
+ \beta_4 \text{GDP}_{ij} \\
+ \beta_5 \text{EDU}_{ij} \\
+ \beta_6 \text{PopGrowth}_{ij} \\
+ \beta_7 \text{PubServ}_{ij} \\
+ \beta_8 \text{EconReg}_{ij} \\
+ \beta_9 \text{EconShock}_{ij} \\
+ \beta_{10} \text{Conflict}_{ij} \\
+ \beta_{11} \text{Colonizer}_i \\
+ \beta_{12} \text{VLET}_{ij} + \epsilon_{ij}
\]

Aside from the primary independent variables, this fully specified model includes several controls. GDP per capita, measured at purchasing power parity, covers all state-years from 1960 to 2018, and provides a heuristic for the economic opportunities to which individuals have access in society. Theoretically, low GDP per capita could plausibly increase economic informality because individuals with few economic opportunities tend to turn to adopt informal labor to compensate for the lack of formal income (Banerjee and Duflo, 2011). Education, measured by school life expectancy in primary and secondary education, captures the “number of years a person of school entrance age can expect to spend in school” (Bank, 2019b), and accounts for the percentage of children within a state who do not attend school. Edu-
cation data is available in most state-years from 1970 - 2018. Similar to GDP per capita, I control for education because low levels of education within a state might limit formal opportunities and subsequently motivate more individuals to seek “unskilled work” in the informal sector (Sibhat, 2014).

Population growth, measured as an annual percentage, accounts for the modern dualist hypothesis that economic informality results when population growth outpaces job growth. Data for population growth is available for all state-years between 1960 and 2018 (Chen, 2012). Public service provision is an index that “reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies” (Bank, 2019b). This variable recognizes that poor public service provision also forces informal laborers to take on more costs, inhibiting their capacity to save for a formal enterprise (Sibhat, 2014). It also accounts for the hypothesis that individuals might exit the formal state if they believe that the state is not fulfilling its obligations as a state (Englebert, 2000b). Public service data is available in most state-years from 1995-2018.

Economic Regulation, an index that includes credit market regulations, labor market regulations, and business regulations (Bank, 2019a), accommodates the hypothesis that if formal contracts and taxes are sufficiently burdensome, informal workers will either choose to evade regulations by staying in the informal sector, or will not have adequate resources to comply with state regulations, and will thus be barred from entering the formal sector (Azuma and Grossman, 2002). Regulation data is recorded every five years in most state-years from 1970 - 2018. Economic Shock, a dummy variable that codes whether or not a banking crisis, financial crisis, or sovereign debt crisis occurred within a particular state-year (Laeven and Valencia, 2018), reflects the hypothesis that economic crises trigger unemployment in the formal sector leading to an increase in employment in the informal sector (Chen, 2012). Data on economic shocks is available for most state-years from the 1970 to 2018.
Conflict, including civil and interstate, is a categorical variable that ranges from 0 (no conflict) to 2 (over 1000 battle deaths in any given state-year) (of Peace and Research, 2020). This variable entertains the hypothesis that economic informality is greater in conflict zones due to the weakness or even collapse of the formal State (Schoofs, 2015). Conflict data is available for most state-years from 1960 - 2018. Lastly, Colonizer, another categorical variable, accommodates the hypothesis that colonial legacies are specific to individual colonizers (Lee and Schultz, 2012).

Critically, this list of controls excludes four plausible explanatory variables: Literacy, corruption, tax morale, and financial inclusion. These had to be eliminated from the fully specified model due to lack of data availability. Fortunately, there are several factors that render the results of this study valid despite these missing controls. Namely, each missing control fits in with a classification of controls already accounted for in the model. Literacy is one measure of human capital accounted for by education, corruption and tax morale are metrics of governance quality accounted for by conflict and public services, and financial inclusion measures access to financial and business services, accounted for by economic regulation. Therefore, this model proves to be more efficient than a model weighted down by these additional controls, without sacrificing the ability to evaluate whether these other factors influence economic informality.

### 3.3 Descriptive Statistics

The summary statistics for all of the variables in this model are listed in Table 3.1. Out of 217 states included in the total sample, the mean value for state-level informal economy size is 35.59 percent of official GDP. Of the three West African case studies, Cabo Verde’s...
informal economy is only 5 percentage points larger than the global mean, while the informal economies in the Côte d’Ivoire and Senegal are 11 and 18.5 percentage points larger, respectively. The states with the smallest informal economies on average across years are Switzerland, totaling approximately 9.5 percent of GDP, and the United States, totaling approximately 10.8 percent of GDP. Both states are vertically and horizontally legitimate as Switzerland regained its sovereignty following the Napoleonic Wars and the United States is a former settler colony in which the majority of the native population was either displaced or eradicated. The states with the largest informal economies on average are Georgia, Tanzania, Zimbabwe, and Haiti, ranging from 60 to 72 percent of official GDP.\footnote{In contrast, the World Bank reports that the States with the largest informal economies in the world are all West African States, including Niger, Benin, and Mali. Other top contenders are also African states, including Burundi, Malawi, and Mozambique. Russia and Serbia have the smallest informal economies on average although the United states and Switzerland are not recorded in the World Bank data set. These dependencies illustrate the complexities involved in measuring and comparing informal economy size. The data set from Elgin and Oztunali (2012) is likely more consistent across states as it applies the same model to all states rather than relying on self-reported data from each state respectively, however, the Wold Bank data is more up to date than the data used in the primary model of this thesis. I will use the World Bank data to perform a robustness check on the results.} None of these states are vertically legitimate, and Zimbabwe and Tanzania are both horizontally illegiti-
mate, although in Zimbabwe, over 50 percent of the population belongs to an ethnic group partitioned by colonial borders, and in Tanzania, less than 50 percent of the population belongs to a partitioned ethnic group. Neither Georgia or Haiti are coded for horizontal legitimacy.

The Philippines are the only state with a level of economic transformation of 100. During the colonial period, Spanish colonizers focused on spreading colonial rule to even the most rural areas of the archipelago in an attempt to collect enough head taxes to finance their military operations in South East Asia (Fradera, 2004). Spanish merchants also encouraged intensive export oriented production and agriculture, and promoted continuous trade with China during the colonial period, enabling a native class of middle income Filipinos to invest in trade systems established within the colonial economic structure (Fradera, 2004). The small size of the archipelago and the islands’ geopolitically relevant location, combined with Spain’s initiative to expand their control of the Philippines to the interior of the islands, and native Filipinos’ incentives to participate in the new economy, all help explain why the Philippines experienced complete economic transformation during the colonial period.

Fiji, another small island nation in the South Pacific, experienced the next highest level of economic transformation with a score of 89. British colonization of Fiji under Sir Arthur Hamilton Gordon endeavored to make Fiji as economically self-sufficient as possible, perhaps accounting for its high level of economic transformation (May and Selochan, 1998). Algeria, closely follows Fiji with an economic transformation score of 86. Algeria had the second largest number of European settlers on the African continent during colonization, and like the Philippines and Fiji, was well integrated into maritime trade routes (Marx, 2017). Singapore, Mongolia, Hong Kong, Brunei Darussalam, and Afghanistan were all coded as having experienced no economic transformation during the colonial period. Hong Kong, Singapore, and Brunei Darussalam were all British colonies in East Asia that were also intermittently occupied by the Chinese and Japanese, perhaps accounting for the minimal impact of British colonization on the evolution of economic institutions in each states’ respective development
Mongolia and Afghanistan also experienced less colonial influence than other states. Among the 87 states in Asia and Africa included in the economic transformation data set, the average level of economic transformation was 46.68. Including states from Latin America in this data would likely increase this average because many Latin American states are former settler colonies characterized by high levels of investment in infrastructure during colonization (Anievas and Nisancioglu, 2015).

Out of the same 87 countries in the economic transformation data set, 45 were coded as a 2 for horizontal legitimacy, meaning that over 50 percent of their indigenous population belongs to an ethnic group that was partitioned by colonial borders. The bulk of these 45 States are in Africa, where European nations dissected the continent at the Berlin Conference in 1884, without regard for pre-existing polities or institutions. 65 out of the total 217 states in the sample are classified as vertically illegitimate. The majority of these states are also concentrated in Africa. These descriptive statistics accentuates two important points relative to this study. First, economic informality is a pervasive issue in the world. The average informal economy accounts for over a third of each states’ official GDP. This indicates significant losses in revenues that could improve states’ capacities to provide goods and services to their constituents. Secondly, economic informality is clearly a global phenomenon. The four largest informal economies in the world range across three different continents. Lastly, in regards to the claims advanced in this thesis, the highest concentration of illegitimate states overlaps significantly with the highest concentration of large informal economies, indicating that legitimacy is indeed an important factor in analyzing variation in state-level informal economy size.
Chapter 4

Empirical Results

I begin by estimating the effect of vertical legitimacy on informal economy size using a pooled OLS model with clustered standard errors to account for possible serial correlation in the panel data. Consistent with the theory advanced by Englebert (2000b), illegitimate states have informal economies that are on average 8.9 percent bigger than informal economies in legitimate states. This result is significant at the one percent level. Vertical legitimacy constitutes the primary independent variable in the first model because the claim that economic transformation influences informal economy size is predicated on the notion that economic transformation motivates exit from the state if the newly established institutions are perceived by the native population as illegitimate. Vertical illegitimacy, on the other hand, might be triggered by economic transformation, as well as changes in political and social institutions. Models 2 and 3 add controls for horizontal legitimacy and economic transformation respectively. As hypothesized, horizontal legitimacy is negatively correlated with informal economy size (levels of horizontal legitimacy decrease as the index increases, so a positive coefficient indicates a negative correlation). Contrary to expectations, an increase in economic transformation produces an increase in informal economy size by .15 of a percentage point. The effects of economic transformation and horizontal legitimacy are both significant at the one percent level. In Model 3, vertical legitimacy becomes positive,
### Table 4.1: Effects of Legitimacy and Economic Transformation on Informal Economy Size

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
<th>Model 5</th>
<th>Model 6</th>
<th>Model 7</th>
<th>Model 8</th>
<th>Model 9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vertical Legitimacy</td>
<td>-8.993***</td>
<td>-1.184**</td>
<td>2.426***</td>
<td>2.022***</td>
<td>3.369***</td>
<td>4.329***</td>
<td>5.091***</td>
<td>-4.746</td>
<td>24.63***</td>
</tr>
<tr>
<td></td>
<td>(0.376)</td>
<td>(0.517)</td>
<td>(0.485)</td>
<td>(0.415)</td>
<td>(0.546)</td>
<td>(0.573)</td>
<td>(0.706)</td>
<td>(5.336)</td>
<td>(9.044)</td>
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<tr>
<td></td>
<td>(0.325)</td>
<td>(0.296)</td>
<td>(0.286)</td>
<td>(0.374)</td>
<td>(0.410)</td>
<td>(0.506)</td>
<td>(4.115)</td>
<td>(3.514)</td>
<td></td>
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<tr>
<td>Economic Transformation</td>
<td>0.157***</td>
<td>0.0964***</td>
<td>0.128***</td>
<td>0.117***</td>
<td>0.151***</td>
<td>-0.473***</td>
<td>-0.223</td>
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<tr>
<td></td>
<td>(0.00981)</td>
<td>(0.00922)</td>
<td>(0.0113)</td>
<td>(0.0122)</td>
<td>(0.0163)</td>
<td>(0.212)</td>
<td>(0.216)</td>
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<tr>
<td></td>
<td>(0.148)</td>
<td>(0.267)</td>
<td>(0.316)</td>
<td>(0.319)</td>
<td>(1.462)</td>
<td>(1.265)</td>
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<td>Education</td>
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<td>-1.104***</td>
<td>-1.095***</td>
<td>-2.934***</td>
<td>2.173***</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>(0.129)</td>
<td>(0.144)</td>
<td>(0.150)</td>
<td>(0.983)</td>
<td>(0.794)</td>
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</tr>
<tr>
<td>Population Growth</td>
<td>0.0345</td>
<td>-0.268</td>
<td>-7.821**</td>
<td>-7.661*</td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>(0.299)</td>
<td>(0.292)</td>
<td>(3.856)</td>
<td>(0.857)</td>
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<td></td>
</tr>
<tr>
<td>Economic Shock</td>
<td>0.628</td>
<td>0.068</td>
<td>-4.245</td>
<td>-4.327</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>(1.064)</td>
<td>(1.010)</td>
<td>(4.467)</td>
<td>(3.398)</td>
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<td></td>
</tr>
<tr>
<td>Colonized By: United Kingdom</td>
<td>-0.800</td>
<td>26.433**</td>
<td>33.35**</td>
<td>(1.453)</td>
<td>(11.40)</td>
<td>(13.01)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colonized By: France</td>
<td>-2.357</td>
<td>28.36**</td>
<td>32.20**</td>
<td>(1.506)</td>
<td>(13.48)</td>
<td>(13.04)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colonized By: Portugal</td>
<td>-3.746**</td>
<td>19.65</td>
<td>22.15</td>
<td>(1.818)</td>
<td>(19.91)</td>
<td>(20.75)</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Colonized By: Belgium</td>
<td>-8.476***</td>
<td>19.65</td>
<td>22.15</td>
<td>(1.818)</td>
<td>(19.91)</td>
<td>(20.75)</td>
<td></td>
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</tr>
<tr>
<td>Colonized By: Italy</td>
<td>-11.29***</td>
<td>36.14*</td>
<td>54.21**</td>
<td>(3.920)</td>
<td>(20.79)</td>
<td>(24.25)</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Colonized By: United States</td>
<td>-5.863**</td>
<td>(2.327)</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colonized By: Japan</td>
<td>4.342**</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Colonized By: The Netherlands</td>
<td>-22.65***</td>
<td>-6.855</td>
<td>-6.913</td>
<td>(1.971)</td>
<td>(14.73)</td>
<td>(13.26)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Services</td>
<td>6.451**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
<td>(2.771)</td>
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<td></td>
</tr>
<tr>
<td>Conflict</td>
<td>2.039</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td></td>
<td>(1.522)</td>
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<td></td>
</tr>
<tr>
<td>Economic Regulation</td>
<td>0.408</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>(0.687)</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vertical Legitimacy X Economic Transformation</td>
<td>-0.591***</td>
<td>(0.194)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>41.56***</td>
<td>32.40***</td>
<td>23.36***</td>
<td>58.77***</td>
<td>50.17***</td>
<td>46.37***</td>
<td>48.61***</td>
<td>69.99***</td>
<td>48.64***</td>
</tr>
<tr>
<td></td>
<td>(0.291)</td>
<td>(0.610)</td>
<td>(0.726)</td>
<td>(1.434)</td>
<td>(1.948)</td>
<td>(2.186)</td>
<td>(2.217)</td>
<td>(14.36)</td>
<td>(15.08)</td>
</tr>
</tbody>
</table>

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

and remains statistically significant. While I will discuss numerous explanations for the apparent positive relationship between vertical legitimacy and informal economy size later in this chapter, it is pertinent to point out here that Models 2 and 3 have less than half the number of observations included in Model 1, which may account for some of the differences in the estimation.

Models 4 and 5 add controls for GDP per capita and education, two of the most popularly advanced metrics of development. Poor education in particular is frequently cited in the literature as a plausible explanation for increasing proportions of “unskilled” labor
in the informal sector. As expected, both education and GDP are negatively correlated with informal economy size. These relationships are consistent and statistically significant throughout all of the models, except for Model 9 wherein GDP looses significance. A percent increase in GDP per capita renders a decrease in informal economy size of five percentage points on average, while a percent increase in educational attainment renders a 1.6 percentage point decrease in informal economy size on average. Notably, both GDP and education are endogenous in the model.

In Model 6, I include controls that encapsulate the potential for structural and cyclical unemployment to motivate migration into the informal economy: Population growth, which can trigger an oversupply of labor, and economic shock, which can trigger an under supply of employment opportunities. As intuition would suggest, both population growth and economic shock positively correlate with informal economy size. This relationship changes to a negative correlation in Models 7, 8, and 9, however the magnitudes of these effects are smaller than both legitimacy and GDP, and are rarely significant above a 10 percent level. Model 7 adds controls for various colonizers. The correlation coefficients should be interpreted as the effect of being colonized by country x relative to having been influenced by colonialism but not colonized. While Model 7 reveals that in general, states that were colonized maintain smaller informal economies on average than those that experienced colonial influence but were not colonized, many of these relationships become positive in Models 8 and 9. In these Models being colonized by four primary European powers, France, Britain, Belgium, and Italy renders informal economies that are anywhere between 20 and 55 percent larger than states who experience minimal colonial influence. Most of these effects are significant at the 5 percent level.

In Model 8, I include controls that encompass the effect of governance quality within a territory on informal economy size: public services, conflict, and economic regulation. By definition, states maintain the monopoly of the legitimate use of force within society and act as the primary distributor of public goods. A government’s failure to accomplish either
objective might motivate constituents to exit the formal apparatus of the state, and engage in the informal economy instead. In contrast, economic regulations can sometimes place over-burdensome regulations on small business formation and registration. Estimates for conflict and economic regulation are consistent with these expectations, but the positive relationship between public service provision and informal economy size is not.

Model 9, the fully specified model, adds the primary variable of interest in this study, the interaction between vertical legitimacy and economic transformation. This model counter-intuitively indicates that being a vertically legitimate state is associated with informal economies that are on average approximately 24 percent bigger than informal economies in illegitimate states. This result is significant at the one percent level. In contrast, I can not reject the null hypothesis in this model that there is no relationship between economic transformation and informal economy size. Notably, both of these relationships are negative in Model 8 and positive in Model 7. This suggests that these results are impacted by the particular colonizers included in each of the models as well as the significant drop in observations, and perhaps not as reliable as the results displayed in Models 1-5. Consistent with my primary hypothesis of interest (H3), the interaction term between economic transformation and vertical legitimacy is negatively correlated with informal economy size. A percent increase in economic transformation will produce a more significant decrease in informal economy size than in vertically legitimate states than in vertically illegitimate states. This result is significant at the one percent level; however, similar to vertical legitimacy and economic transformation, the relationship should be accepted with caution despite its statistical significance due to the smaller sample size in the fully specified model.

4.1 Discussion

Out of each of the primary variables of interest, horizontal legitimacy remains the most consistent and statistically significant throughout each of the models, suggesting that ethnic
4.1. DISCUSSION

Partitioning plays an important role in the development of informal economies. In general, a unit increase in horizontal legitimacy produces an average decrease of six percentage points in informal economy size, confirming hypothesis H2b, that higher levels of horizontal legitimacy produce smaller informal economies. In contrast, the relationship between vertical legitimacy and informal economy size is predominately positive throughout each of the models. This result contradicts hypothesis H2a by indicating that vertically legitimate states have informal economies that are on average larger than vertically legitimate states. However, Models 1 and 2, the two Models with the most observations, both indicate a negative relationship between informal economy size and vertical legitimacy. The inconsistencies in this relationship across models seriously undermines the confidence that can be placed in these results, despite their statistical significance. I suspect that the positive results are contingent exclusively on the smaller sample size. Further research could investigate if any particular states are driving these results. Regardless, the statistical significance of both vertical legitimacy and horizontal legitimacy throughout each of the models, as well as the sizable magnitudes of the variables' effects clearly indicates that legitimacy not only impacts economic informality, but is a major determinate of informal economy size.

The consistent positive relationship between economic transformation and informal economy size throughout most of the model specifications disproves hypothesis H1, that a percent increase in economic transformation will lead to a decrease in informal economy size. The results indicate that an increase in economic transformation would lead to an increase in informal economy size, although the magnitudes of these effects are consistently less than a half of a percent. There are multiple plausible explanations for this result. One possibility is that these results are being driven by a particular component of the economic transformation index. This index is comprised of trade concentration with a metropole, investment in infrastructure, and concentration of mining sites and plantations among other factors. It is possible that each these components have contradictory relationships with informal economy size. For example, in accordance with Mkandawire (2016), investment in mining
might motivate lower levels of informalization than investments in plantations. The case studies in the following chapter highlight my suspicion that plantation concentration is the driving force behind the positive relationship between economic transformation and informal economy size.

The second possibility is that greater levels of economic transformation during the colonial period, produce a more pronounced split between the informal and formal sectors, thereby increasing the likelihood that native inhabitants will choose to participate fully in the informal economy. In this case, minimal economic transformation would not instigate a sufficient degree of change in the economic system to instigate economic dualism, indicating why low levels of economic transformation corresponds with low levels of economic informality. Correspondingly, the third possibility is that an increase in economic transformation increases the likelihood that constituents will view the formal state as a foreign import motivating individuals to exit the formal state and join the more localized informal economy. This possibility substantiates the existence of a negative correlation between vertical legitimacy and informal economy size, lending credibility to the results from Models 1 and 2 despite its inconsistency across models.

In contrast, one plausible explanation for a positive relationship between vertical legitimacy and informal economy size in Models 3-7, much in line with Makandawire’s (2016) argument, is that vertically legitimate states retained both indigenous leadership structures and a larger proportion of indigenous political and economic institutions, prompting greater levels of economic informality as the State entered the global economy. In this case, the informal economy is large because the pre-colonial economic systems remained more salient in legitimate states than in illegitimate states. However, this explanation would suggest a negative relationship between economic transformation and informal economy size, which only manifests in one of the models. Interpreting these results in tandem with one another therefore suggests greater accuracy in Models 1 and 2, which disclose a negative relationship between vertical legitimacy and informal economy size. Likewise, horizontal legitimacy is
negatively correlated with informal economy size in all of the model specifications. This finding affirms the general hypothesis that illegitimacy motivates entry into the informal economy (H2a and H2b).

The panel data used in this study also corroborates Englebert’s (2000b) finding of a strong correlation between horizontal and vertical legitimacy. Work by Posner (2004) on ethnic cleavages in Zambia and Malawi suggests that the salience of ethnic identity may be a product of policies enacted by colonial and post-colonial administrations, providing intuition for the correlation between the two types of legitimacy. Therefore, the combination of the steady positive correlation between economic transformation and informal economy size, the steady negative correlation between horizontal legitimacy and informal economy size, and the strong correlation between horizontal legitimacy and vertical legitimacy, all suggest that state legitimacy in general produces a decrease in informal economy size despite the inconsistencies in results pertaining to vertical legitimacy. Lastly, consistent with hypothesis H3, which states that economic transformation will produce smaller informal economies in vertically legitimate versus vertically illegitimate states, the interaction term of vertical legitimacy and economic transformation negatively correlates with informal economy size. This result suggests that a percent increase in economic transformation will produce a greater increase in informal economy size in vertically illegitimate versus legitimate states, affirming my theory that informalisation dependents upon the capacity of post-colonial leaders to maintain particular economic institutions following the colonial period.

4.2 Robustness Check

Because the data I use for informal economy size in the primary regression analysis is compiled via an estimated model, I conduct the same analysis using data on state-level informal economy sizes from the International Labor Organization to cross-validate the results from the primary regression (See table 4.2a). However, due to extreme limitations to data
availability, I had to eliminate conflict, economic regulation, from this regression. In general, these results are contingent on a much smaller sample size than the primary analyses. These regressions largely fails to reject the null hypotheses that there are no relationships between informal economy size and legitimacy and economic transformation, respectively. However, vertical legitimacy is negatively correlated with informal economy size in Model 10 and Model 18. These two Models are the only two in which vertical legitimacy is statistically significant, confirming hypothesis 2a as well as my suspicion from the previous regressions that the true relationship between vertical legitimacy and informal economy size is negative. The interaction term between vertical legitimacy and economic transformation is positively correlated with informal economy size, significant at the one percent level. However, this result is contingent on only 53 observations, leading my to place more confidence in the negative correlation from the primary regression analysis. I also run the same modes adding country fixed effects. Doing so accounts for variation in informal economy size that stems directly from characteristics that are unique to each state. The fully specified model in this regression reveals a negative correlation between informal economy size and vertical and horizontal legitimacy, significant at a one percent level. In contrast, the interaction between vertical legitimacy and economic transformation is positively correlated with informal economy size, also significant at the one percent level. Economic transformation is positively correlated with informal economy size as in the previous regressions, but is only significant in the fully specified model. These results affirm hypotheses 2a and 2b but contradict hypothesis 1 and 3. Therefore, adding fixed effects to the models suggests that there is inconclusive evidence that the interaction between vertical legitimacy and economic transformation better explains variation in informal economy size than either variable respectively.
4.3 Error

There are multiple sources of error in this regression analysis. The most prominent source of error is the possibility that the true functional form of the theoretical equation underlying this regression is non-linear. I have already expressed the possibility that economic transformation is parabolic rather than linear, but this phenomenon may apply to the other independent variables as well. The negative coefficients on the colonizer variables relative to states that were influenced by colonialism but not colonized, indeed suggest the existence of thresholds within the relationship between economic transformation and informalization. If nonlinearities characterize this relationship, or the relationships between the other variables in the model, then the results from my primary estimating equation are invalid. Another source of error regarding the estimating equation is the possibility of omitted variable bias, meaning that I have neglected to include an explanatory variable in the estimating equation. In particular, the four variables I omitted due to data availability - financial inclusion, corruption, tax morale, and literacy - are the most likely sources of omitted variable bias.

Error could additionally stem from the availability and measurement of the data. Specifically, many of the variables included in this regression are coded in multiple different ways by many different researchers and organizations. This thesis illuminates the slight variation in results that occurs when economic informality is measured by different sources. A third method of measuring economic informality, or a second method of measuring legitimacy, economic transformation, or any of the controls could render significantly different results. Additionally, due to data availability, the fully specified model covers primarily former colonies in Africa and Asia. It is possible there are unknown biases in this particular sample, and that including more former colonies in Latin America in the fully specified model would alter the results.
### Table 4.2: Cross-Validation with ILO Data

<table>
<thead>
<tr>
<th>Model 10</th>
<th>Model 11</th>
<th>Model 12</th>
<th>Model 13</th>
<th>Model 14</th>
<th>Model 15</th>
<th>Model 16</th>
<th>Model 17</th>
<th>Model 18</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>(0.0970)</td>
<td>(0.101)</td>
<td>(0.260)</td>
<td>(0.289)</td>
<td>(0.235)</td>
<td>(0.177)</td>
<td>(0.285)</td>
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</tr>
<tr>
<td>Education</td>
<td>-2.816**</td>
<td>-0.494</td>
<td>-0.710</td>
<td>1.000</td>
<td>-1.455</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Observations</td>
<td>329</td>
<td>99</td>
<td>99</td>
<td>95</td>
<td>60</td>
<td>54</td>
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</tr>
<tr>
<td>R-squared</td>
<td>0.045</td>
<td>0.010</td>
<td>0.031</td>
<td>0.414</td>
<td>0.424</td>
<td>0.516</td>
<td>0.749</td>
<td>0.769</td>
</tr>
</tbody>
</table>

(a) The robustness check presented in this table also measures the effects of legitimacy and economic transformation on informal economy size. It uses Informal Economy size data from the ILO (2019) to cross-validate the primary regressions which use Informal Economy Size data from Elgin and Oztunali (2012). Due to extreme limitations on data availability, these models do not include the effects of Economic Regulation or Conflict on Informal Economy Size.
### 4.3. ERROR

Table 4.3: Cross-Validation with Fixed Effects

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
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</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>66.900***</td>
<td>−2.062</td>
<td>−51.651**</td>
<td>−50.712**</td>
<td>−46.360**</td>
<td>−49.282**</td>
<td>31.935**</td>
<td>−21.774**</td>
<td>86.712***</td>
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<td>Vertical Legitimacy</td>
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<td>24.315***</td>
<td>32.964***</td>
<td>30.509***</td>
<td>36.088***</td>
<td>35.590***</td>
<td>−0.832</td>
<td>19.954***</td>
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<td>Horizontal Legitimacy</td>
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<td>34.481***</td>
<td>34.385***</td>
<td>33.716***</td>
<td>33.464***</td>
<td>−2.958***</td>
<td>51.429***</td>
<td>20.021***</td>
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<td>0.702***</td>
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<td>Log GDP per Capita</td>
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<td>−0.018</td>
<td>−0.043***</td>
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<td>−0.861***</td>
<td>−4.801***</td>
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<td>Education</td>
<td>−1.855***</td>
<td>−1.877***</td>
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<td>0.191</td>
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<td>Population Growth</td>
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<td>Colonizer1</td>
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<td>Colonizer9</td>
<td>−66.721***</td>
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<td>Conflict</td>
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<td>Economic Regulation</td>
<td>1.023***</td>
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<td>Vertical Legitimacy X Economic Transformation</td>
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R²: 0.877 0.813 0.817 0.826 0.917 0.916 0.916 0.994 0.994
Adj R²: 0.874 0.809 0.813 0.822 0.913 0.912 0.912 0.992 0.992
Num. obs. 5713 2898 2746 2746 1579 1450 1450 82 82
RMSE 5.191 6.181 6.094 5.951 3.934 3.872 3.872 0.913 0.913

(a) The robustness check presented in this table also measures the effects of legitimacy and economic transformation on informal economy size. It uses country fixed effects to cross-validate the primary regressions. It does not correct for serial correlation in the panel data.
Chapter 5

Pre-Colonialism to Decolonization: Informalization in West Africa

Economic informality in West Africa is extremely complex and heterogeneous. Uniquely characterized by a sizable proportion of large informal firms, the region seemingly defies the conventional narrative that informal enterprises are inherently small and poor. The rich variation of informal economic activity compellingly inspires hypotheses regarding informal economy size alternative to those relating to poverty or underdevelopment. The process-tracing in this chapter will present evidence that illuminates how indigenous communities’ varied responses to colonialism prompted variation in informal economy size. This chapter includes the following component:. Section 5.1 introduces and justifies the selection of cases used to substantiate findings from the regression analyses. Sections 5.2, 5.3, and 5.4 detail the evolution of particular pre-colonial and post-colonial institutions in Cabo Verde, Senegal, and the Côte d’Ivoire respectively, highlighting how variation in these development trajectories led to variation in informal economy size. Lastly, section 5.5 concludes the chapter by synthesizing key understandings from the collective cases.
5.1 Case Selection

Cabo Verde, Senegal, and the Côte d’Ivoire are all coastal states in West Africa (Cabo Verde is an island state off the coast of Senegal). Each state has similar export-oriented fishing and agricultural based economies (FAO, 2020) with informal economic activity comprising 40 percent, 47 percent, and 53 percent of official GDP on average in Cabo Verde, the Côte d’Ivoire, and Senegal respectively (Elgin and Oztunali, 2012). In general, West Africa has one of the highest concentrations of large informal economies in the world (ILO, 2018), making this region rich for analysis. Comparing these three cases will enable the exploration of intercontinental and even inter-regional variation in economic informality, a level of detail that is rarely employed when evaluating variation in informal economies. During the colonial period, all three states exported agricultural goods and became focal points in the Trans-Atlantic slave trade (Boone, 1992; Lobban, 1995). Senegal was coded with a level of economic transformation of 75, while the Côte d’Ivoire received a score of 64. In Cabo Verde, Portuguese settlers were the first known inhabitants of the islands, eventually populating the islands with imported slaves from the Senegambian and Guinea-Bissau regions on the African coast (Lobban, 1995). As such, Cabo Verde was not coded with a score for economic transformation. Although these circumstances make for a very different colonial heritage than in either Senegal or the Côte d’Ivoire, Cabo Verde arguably provides the perfect opportunity to analyze the evolution of colonial economic institutions with near complete post-colonial state legitimacy.

The following two cases, Senegal and the Côte d’Ivoire, specifically allow for a most-similar case analysis. For Senegal, like Cabo Verde, I will present an in depth investigation of the historical processes that ultimately influenced economic informality. Conversely, I will employ the Côte d’Ivoire as a shadow case, highlighting only the key details in the State’s history that illuminate how its development diverged from Senegal’s, resulting in a difference of seven percentage points in informal economy size. These cases provide a rich comparison for the following reasons: Both states were part of the French colonial
CHAPTER 5. PRE-COLONIALISM TO DECOLONIZATION: INFORMALIZATION IN WEST AFRICA

territory in West Africa, experiencing similar colonial policies and institutions (Andersson and Andersson, 2019). Each gained their independence from France in 1960 under the leadership of two of the most prominent independence leaders in French West Africa: Leopold Senghor who became the President of Senegal and Felix Houphouët-Boigny of the Côte d’Ivoire. Both leaders established large single-party states and maintained close ties with France in the decades following independence (Ekpo, 2010). Although the Côte d’Ivoire experienced several years of interstate conflict in the 2000s, each state enjoyed at least 20 years of peace following independence and were both hailed as beacons of stability and economic growth at different times within those 20 years. Today the Côte d’Ivoire has a larger land mass and GDP than Senegal (Bank, 2019b), though both states use the same currency, have an exceedingly similar population density, and comparable Human Development indices (HDIs) (Index, 2019). Lastly, the Côte d’Ivoire’s port city, Abidjan, often competes with Dakar for important trading contracts and creates incentives for urbanization that are similar to those found in Dakar (Bredeloup et al., 2008).

Combined, these cases span marked variation in post-colonial state legitimacy and economic transformation. Political elites in both Senegal and the Côte d’Ivoire opposed independence from France, undermining their credibility as representative leaders. Conversely, leaders in Cabo Verde led a decades long independence struggle, within which building legitimacy was a central component of their strategy to instigate decolonization. Economically speaking, both Cabo Verde and Senegal embraced ideas of Négritude (Black Consciousness) and Pan-African socialism, which indicated attention to pre-colonial economic organization and identity. Meanwhile, the Côte d’Ivoire adopted several capitalist economic policies following independence. Despite these discrepancies, Cabo Verde and the Côte d’Ivoire both invested more in their respective states’ economies than Senegal. In the following sections I will elaborate upon these general differences and similarities between states, articulating how the development of institutions in each of the three states led to higher levels of economic transformation and legitimacy in Cabo Verde, lower levels in Senegal, and moderate levels
5.1. CASE SELECTION

in the Côte d’Ivoire. These outcomes are summarized in Figure 5.1.

Figure 5.1: Legitimacy and Transformation in Cabo Verde, the Côte d’Ivoire, and Senegal

Best practices in process-tracing include open minded evaluation of all evidence, and rigorous scrutiny of possible alternative hypotheses to the primary hypothesis (Bennett and Checkel, 2015). Because process-tracing in this thesis compliments the empirical analysis, I will only be evaluating the three primary hypotheses stated in the previous chapter. In this sense, process-tracing in this thesis is used for the purpose of cross-validation rather than making causal inferences. In other words, it is not used to determine the causal factors of informal economy size, but rather to examine historical evidence that either supports or contradicts my primary hypotheses and regression analyses. I primarily use secondary sources, as well as some original texts by Leopold Senghor, Félix Houphouët-Boigny, and Amilcar Cabral, and informal interviews with informal laborers located in Dakar, Senegal. All secondary sources come from outside the field of new-institutional politics and economics to avoid biasing my analysis.
Lastly, it is pertinent to rationalize my choice of “starting points,” the specific time period where process-tracing begins, and “ending points,” the point at which I stop collecting evidence for each case, as these decisions vary among the three cases (Bennett and Checkel, 2015). In Cabo Verde, I begin my analysis in the 1500’s when the Portuguese first settled the islands in order to understand the development of the first economic institutions on the islands. In Senegal and the Côte d’Iviore, I begin the analysis in the moment when French colonizers consolidated their power over the colonies, because I am particularly interested in how France’s colonial institutions interacted with pre-colonial institutions. I neglect to study European trading that took place prior to French colonization because my main focus is on the primary colonizer in each state. In all three cases I stop my analysis with the first post-colonial leaders’ tenure in office. This allows me to adequately evaluate the policies and legitimacy of the post-colonial government without incorporating extraneous factors like modern financial crises into the evaluation. In general, these case studies will allow me to isolate historical evidence that lends insight into the causal mechanisms that undergird the influence of colonial-era institutions and legitimacy on economic informality without compromising the external validity of the regression analysis.

5.2 Cabo Verde

Cabo Verde, an island nation spanning an archipelago of 10 islands off the coast of West Africa, is home to slightly more than 500,000 people (Bank, 2019b). Approximately 80 percent of the island’s population is Creole, meaning they have mixed European and African ancestry, while the remaining population is majority black African. The particular racial make up of the population stems from a colonial history unique among states within the African continent. Cabo Verde was first settled by Portuguese citizens in the early 1500s. Under the authority of Kings Manual I and John III, these settlers, most of whom were eager to tap into the trade system between Europe and the African coast, established a
hierarchical *capitania* system that closely mimicked Portugal’s feudal structure. The colony was subdivided into districts set to be administered by Portuguese noblemen with close relationships to the crown, which allowed the King to extend his personal influence to the islands (Seibert, 2012).

Essentially established as a tax collection outpost for the Portuguese crown, the small group of merchants who occupied Cabo Verde made a living by buying slaves at low prices from the Guinean coast and subsequently selling them at much higher prices to slave ships bound for the Americas (Lobban, 1995). Few European settlers inhabited the islands except for the *captainos*, a few criminals, Jewish people fleeing religious violence and discrimination, and other individuals who were under threat of persecution by the Spanish Inquisition (Green, 2009). Endowed with limited resources of both land and labor, the Portuguese settlers imported slave labor to maintain subsistence farming and small sugar and cotton plantations (Lobban, 1995). From the moment that Portugal began colonizing Cabo Verde, the economic systems established on the islands drastically differed from colonial systems in other West African states because the white settlers faced no prior economic institutions to contend with. Additionally, while many West African colonies supported large cash crop plantations, Cabo Verde simply did not have the landmass to establish large plantations, and was instead divided into smaller plots, enabling a more intricate class structure among the white settlers:

“The feudal social structure in the islands were modeled after and imported directly from Portuguese feudal society. The highest local authority was the capitanos, next in line were the fidalgos, or noblemen who were served by cavaleiro-fidalgos, or noble knights, and the almozarifes, who worked as royal stewards and tax collectors. In the lower strata were civil servants, petty officers, and menservants” (Lobban, 1995).

The islands were also largely devoid of white female settlers, which meant that Portuguese men frequently “married” African female slaves. By consequence, as early as 1515 the wives and children of colonial administrators, as well as select male slaves, were manumitted by royal decree. The social stratification among the white population along with the evolution of a substantial mixed race population catalyzed the creolization process of the Cabo Verdean
society (Green, 2009). This formulation of a novel identity unique to the islands greatly influenced the later development of institutions within the state.

Aside from the challenges implicit to establishing a new civilization, the residents of the archipelago faced frequent raids from British sailors. These excursions motivated Portugal to strengthen the crown’s claim over Cabo Verde, and in 1564 King John III abolished the hereditary capitania system and created a governorship position appointed by the government in Lisbon. Ten years later, Portugal claimed Cabo Verde as a province and abolished the feudal practice of awarding land grants to capitations (Lobban, 1995). Despite these developments, Cabo Verde encountered several economic challenges throughout the following century. Notwithstanding the crown’s attempts to transform Cabo Verde into a more robust extension of Portuguese society, Lisbon struggled to incentivize white settlers to stay on the islands, which undermined economic growth. Waves of drought and famine in the 1580s, as well as frequent raids led by the British pirate Sir Francis Drake, triggered an exodus of the white settler population to the Guinean coast (Green, 2012). In 1642, Portugal, under the pressure of slave buyers in the Americas, authorized the direct trade of slaves from the Guinean coast to the American slave markets. This decree all but eliminated Cabo Verde’s tax income, and exacerbated the speed of migration from the archipelago to the Guinean coast (Seibert, 2012).

The gradual economic downturn and population decline inhibited white settlers’ capacity to manage their own plantations. Left without any other option, the Portuguese citizens began renting smaller parcels of land to Creoles and freed slaves (Shabaka, 2013). The change triggered an almost complete transformation in the island’s economy to entirely subsistence based agriculture with very few exports. In response, the Cabo Verdan government transitioned from a private income tax to a state-wide public tax collection system in hopes of collecting more revenue, thus establishing more people as official residents of the province (Lobban, 1995). Perpetual drought and food shortages further undermined white settlers’ ability to own and feed slaves, and, as there was little demand for slaves on the island, and no
remaining trade routes linking Cabo Verde to the Americas, many Westerners chose to manumit their slaves (Shabaka, 2013). By consequence, a major demographic shift transpired during this period. For example, on Santiago, the largest of Cabo Verde’s islands, slaves comprised 80 percent of the population in 1582, and only 15.3 percent of the population in 1731 (Seibert, 2012).

While the slave trade did pick back up briefly in the first half of the 18th century with increases in demand in Brazil and New England, slavery within the islands became increasingly costly relative to its benefits (Lobban, 1995). Unlike on the African mainland, most slave owners in Cabo Verde were middle income settlers who owned 1-4 slaves. Even medium sized plantations were virtually non-existent. Like in the previous century, it was costly to feed and “maintain” slaves, especially when small agricultural plots generated little revenue. Moreover, there was always a risk for slave holders that their slaves would resist orders or mount a revolt against them. Uprisings were costly to subdue, and slaves were often successful at escaping to the interior of the islands which were sparely populated (Lobban, 1995). Many farmers found it more economical to hire cheap labor from the growing population of free Creole peasants or farm their land out to sharecroppers than to retain slaves (Lobban, 1995). The government simultaneously endeavored to increase revenues by expanding markets and incorporating slaves in the market based economic system (Seibert, 2012). These two developments motivated a nation wide transition from slavery to wage-based labor.

The first 200 years of Cabo Verdan society illuminates several characteristics that institutionalized lower levels of economic informalization relative to its West African neighbors. First, the archipelago directly imported both European power structures and economic systems, suggesting that institutions on the islands would evolve in a pattern more similar to that of continental Europe than in colonies where European institutions were established parallel to or grafted onto indigenous systems. Second, few families owned more than four slaves, and these slaves worked as domestic servants or personal attendants as frequently as they worked as farm hands. This structure meant that African slaves had little opportunity
or reason to establish their own economic systems or methods of exchange. Freed slaves were likewise immediately incorporated into the formal wage-labor market economy as tenants and sharecroppers. Additionally, Portuguese settlers imported African slaves from a melange of different regions, groups, and cultures. Therefore, even if black Africans had been incentivized to establish their own institutions, they lacked a shared cultural, ethnic, or linguistic foundation by which they could consolidate or preserve certain institutions:

“Enslaved as individuals, and not as social groups, the African slaves did not keep their various cultures intact. Besides, Africans came from different regions with relatively diverse cultures, while the culture of the European community was more homogeneous. Due to the colonizers’ monopoly of power in the new territories, Africans were not in a position to develop and establish their own institutions and legislation outside the parameters fixed by their European masters. Consequently, the Africans’ original kinship system and economic, religious, and political organizations did not survive” (Seibert, 2012).

New African slaves arriving on the islands underwent a challenging socialization process. Creole slaves born on the islands and older previously-imported slaves forced these newly-imported Africans to assimilate to the hybrid culture. Coerced into converting to Catholicism when arriving on the islands, many of these Africans also received new Latin first names and adopted the surname of their owners (Lobban, 1995). Cabo Verdeans forbid Africans from speaking their native languages, accelerating the assimilation and creolization process within the country (Carter and Aulette, 2009). As such, while Cabo Verde adopted exclusively European economic and political institutions, the first 200 years illustrate the emergence of a distinct cultural identity that was neither strictly European nor African. This unique cultural foundation translated into a strong national identity during and following the fight for independence. Throughout most of the following century the slave trade on the islands became increasingly more clandestine as both Great Britain and the United States banned the importation of slaves. Production of other exports including wax, ivory, and salt increased, but could not match the revenues generated by the slave trade. During this time a small proportion of Portuguese natives or descendants of Portuguese immigrants continued to identify strongly with the colonial governance system that substantiated their own supe-
priority in society. However, most black Africans and Creoles began to identify more strongly with their Guinean counterparts, choosing to embody a stronger African identity than European one (Lobban, 1995). The increasing salience of an African identity later proved to be an important factor in Cabo Verdeans’ response to the changing economic landscape on the islands.

Simultaneous to the increasing salience of an African identity, a growing number of Creole-identifying Cabo Verdeans began obtaining higher levels of education. The Portuguese colonizers had implemented robust education infrastructure to support the large settler population. In fact, Cabo Verde was the first Portuguese colony to establish schools for secondary and post-secondary education (Rich, 2008). Therefore, Creole slaves manumitted during the economic downturn of the 17th and 18th centuries and their free descendants, had access to high quality education following their liberation. A young educated Creole class soon developed, operationalizing their education to build an intellectual and political platform for the consolidation and expression of the Creole identity (Chilcote, 1968). Inspired by the Bolshevik Revolution of 1910 and the Portuguese Revolution in 1911, which gave way to the establishment of a Republican Portuguese government, these individuals began advocating for a range of liberal objectives, including, various social reforms, workers rights and labor movements to counteract the failing economy, self-determination, and pan-Africanism (Chilcote, 1968). Even though these individuals expressed a strong Creole identity, their attitudes towards de-colonization, pan-Africanism, and socialism (Chilcote, 1968), were clearly demonstrative of a closer identification with an African rather than European identity.

One individual in particular who benefited from the Cabo Verdelan education system at this time catalyzed revolutionary change in both Cabo Verde and Guinea-Bissau. Amilcar Cabral, born to Cabo Verdelan parents in Bafata, Guinea-Bissau, attended secondary school at Liceu Gil Eans in Cabo Verde where he studied the Claridade literary movement, a group of intellectuals who sought to use poetry and prose to amplify the Creole identity, the plight of marginalized peoples prone to drought, famine, and poverty on the islands, and the colo-
nial exploitation of Cabo Verde (Mendy, 2020). Following his secondary-school education, Cabral emigrated to study in Lisbon. There, he not only became a prolific agronomist, but participated in student movements protesting against the Portuguese dictatorship and colonial rule. Returning to Africa in the 1950s, Cabral was further radicalized upon witnessing the economic disparity caused by the colonial regime. He founded the African Party for the Independence of Guinea-Bissau and Cabo Verde (PAIGC), a fundamentally socialist party through which he “emphasized the need to ‘commit suicide as a class’ and ‘be reborn as revolutionary workers’ in order to avoid the ‘betrayal of the objectives of national liberation’ and prevent a transition from colonialism to neocolonialism” (Mendy, 2020).

The decision to unite Guinea-Bissau and Cabo Verde under a single political force was a strategic move to reinforce the notion of African unity and insulate the island against Portugal’s efforts to use Cabo Verde’s legacy as a colonial administrative seat to strengthen its influence over the colony (Meyns, 2002). From 1959 to 1963 the PAIGC devoted energy to expanding the party organization via a hierarchical structure across 13 regions in Guinea-Bissau and Cabo Verde (Lobban, 1995). In 1963 the PAIGC mounted a military campaign against the Portuguese colonizers in Guinea-Bissau. Party organizers decided against expanding the theater of violence from Guinea-Bissau to the islands, but Cabo Verde became the administrative headquarters of the party. Even though the PAIGC mounted a predominantly rhetorical campaign in Cabo Verde, Cabo Verdeans were acutely aware and supportive of the fighting that the PAIGC was leading in Guinea-Bissau (Lobban, 1995). From 1963 to 1970 the PAIGC successfully liberated approximately 75 percent of Guinea-Bissau and organized a rhetorical campaign that demonized Portugal’s behavior in the eyes of the international community. Cabral took personal responsibility in conducting an international tour, visiting the United States, the Vatican, several countries in Latin America, and the United Nations in Geneva in order to build momentum for Cabo Verde’s liberation among the international community (Opoku, 1978). Cabral hoped to capitalize on the support of Western nations in particular by framing Cabo Verde’s liberation struggle as a fight for
democracy within the context of the Cold War, while also aligning themselves with the 1968 protests around the world in an effort to build international solidarity (Opoku, 1978). Eventually, Cabral also achieved formal recognition for the PAIGC from the UN General Assembly and Decolonization Committee (Opoku, 1978).

Aside from efforts to mobilize international support, the bulk of the PAIGC’s success stemmed directly from the strategic rhetorical campaign Cabral initiated domestically. Cabral believed that a successful revolutionary movement necessitated a strong foundation of cultural unity. He advocated for the “re-Africanization” of the spirit (Lobban, 1995), and insisted, in a Marxist fashion, that ethnic and tribal identities and divisions were simply social constructs created by the Portuguese colonizers to undermine the unity of native Africans and cripple resistance movements (Bennett and Checkel, 2015). Cabral also maintained that Portuguese imperialism was a manifestation of monopoly capitalism that stemmed from the European division of the African continent (Bennett and Checkel, 2015). In Cabral’s words:

“Warfare has substantially increased the political awareness of the African masses and intensified the unity among all Africans, erasing not only the differences between certain ethnic groups in Guinea-Bissau, but also the conflict between the Cape Verdean minority and the asimilados among the native majority. Furthermore, the struggle has strengthened national consciousness among all groups, gradually overcoming the complexes endangered by colonial exploitation, it has enabled ‘marginal’ human beings who are the product of colonialism to recover their personality of Africans” (Cabral, 1966).

Cabral endeavored to bring “the organic union of all political unions, and mass organizations in “Portuguese” Guinea and in Cape Verde Islands together to build peace, well-being, and progress of the peoples” (Cabral, 1962). To achieve this revolutionary ideal, Cabral outlined several objectives that the PAIGC would work towards following independence: First, the party would facilitate the liquidation of all colonial relationships and completely eradicate Portuguese influence over Guinea-Bissau and Cabo Verde. The two colonies would form a democratic single state called Kinara, the pre-colonial name for the territory. Secondly, the party would fight for Pan-African unity, liberty, dignity, and equality among all Africans. Third, the party would oppose any future annexation attempts of neighboring states. Fourth,
all citizens would be granted suffrage and equal rights regardless of nationality, ethnicity, kinship, religion or profession. Lastly, the party would actively build upon their efforts to organize strikes and negotiate higher wages for workers from the Portuguese government by guaranteeing employment and protections for all workers (Lobban, 1995). Specifically, the PIAGC promised to abolish forced labor, support unions, establish free educational centers that promoted African and Creole Languages, and redistribute land ownership (Chilcote, 1968). These steps would help the government modernize the agricultural sector, diversify exports, and increase industrialization (Chilcote, 1968).

Tragically in 1973, Cabral was shot by an undercover PAAIGC member who worked with a small coalition group of Portuguese and Cabo Verdeans who endeavored to eliminate he PAIGC in order to protect colonial interests. However, Cabral’s assassination did nothing to deter the revolutionary momentum in the colonies. Cabo Verde and Guinea-Bissau, along with the other Portuguese colonies, finally declared independence in 1974. Although fighting never broke out on the islands, Cabo Verdeans felt closely connected with the protracted struggle for independence that lasted for over 10 years in Guinea-Bissau, and the sentiment of a military victory was shared among both states (Turner, 2014). The first elections were held on June 30th 1975; over 85 percent of the adult population participated in the elections, and the PAIGC received 92 percent of the vote (Lobban, 1995). Aristides Pereira became president and Pedro Pires filled the position of Prime Minister. Pereira was one of the original founders of the PAIGC, and Pires had already spent a long career as a commander in the PAIGC in Guinea-Bissau. Both men were integral to independence movement, close to Cabral, and had even spent time in colonial prisons (Turner, 2014).

Despite this unity at the time of independence, after just five years following the declaration of independence, growing divisions between Guinea-Bissau and Cabo Verde rendered the single-party structure between the two states increasingly unenviable (Munslow, 1981). Guinea-Bissau struggled to weather an economic downturn following the war-economy boom during the fight for independence, and in 1980 a bloodless coup disposed of Guinea-Bissau’s
leader Luis Cabral, brother to Amilcar Cabral, replacing him with then Prime Minister Joao
Bernardo Vieira. Wanting to separate themselves from any association with the political
instability in Guinea-Bissau, the Cabo Verden PAIGC renamed themselves the Partido
Africano da Independência de Cabo Verde (PAICV) (Munslow, 1981). The 1981 constitu-
tion established the PAICV as the sole political party of the State, which lasted until 1991
when an opposition party, the Movimento para a Democracia (MpD) forced the government
to open the state to multi-party elections, and a full democratic transformation (Meyns,
2002).

Even though the PAICV’s tenure in office experienced slowly evolving political unrest,
there were only two instances of anti-state collective action between independence and 2006,
and Cabo Verde was unique among the former Portuguese colonies in transitioning to a
full democracy without any major instances of violence (Rich, 2008). Today Cabo Verde
has complete proportional political representation, and a legislator to citizen ratio of one
legislative representative for less than 6000 constituents (Rich, 2008). Part of this political
stability likely stems from Cabo Verde’s significant and inclusive economic growth during
the 1980s and 1990s. Aware that Cabo Verdean economy was handicapped by minimal
colonial investments in infrastructure, a large subsistence based economy, and low levels of
manufacturing, President Pereira committed to an intensive investment strategy through
out the 1980s (Pereira, 2008). Each year roughly 50 to 70 percent of the State’s GNP was
invested in infrastructure and job creation. During the first three years the program created
approximately 25,000 jobs per year, transforming a large proportion of the employment
opportunities on the island from temporary jobs to permanent jobs (Pereira, 2008). Pereira
also invested 60 million dollars alone in agriculture, transportation, and industry, prompting
GDP to increase by approximately 50 percent in five years (Pereira, 2008). Like during
colonial times, Cabo Verde’s economy remained largely agricultural and export oriented,
making it vulnerable to global price shocks. However, the State’s stability and continued
willingness to implement economic reform made it attractive for Foreign Direct Investments
which the State welcomed from both democratic and communist states throughout the Cold War (Rich, 2008). The government also extended suffrage and representation to the sizable proportion of Cabo Verdeans living abroad, significantly increasing the income the State received from familial remittances (today nearly 20 percent of Cabo Verde’s income comes from remittances) (Rich, 2008).

Today Cabo Verde maintains a robust informal economy, which comprises approximately 40 percent of its GDP, which is five percentage points above the global average. Yet this figure is, on average, 10 percentage points lower than its West African continental counterparts, an impressive figure given the vulnerability of the island economy and the unemployment rate of 20 percent (Bank, 2019b). The relative success of Cabo Verde in minimizing informality has clear origins in the colonial period. During colonization Cabo Verdeans developed a unique Creole identity, yet continued to identify with their African heritage. Amiclar Cabral capitalized on this unique history by grounding the anti-colonial independence movement in the notion of cultural unity, emphasizing not only the uniqueness of the Cabo Verdean identity, but the sameness of Cabo Verdeans’ culture across ethnic, class and racial lines. For Cabral, independence was an exercise in not only achieving self-determination, but in consolidating and expressing legitimacy as a self-governing entity. He articulated that under colonialism, Cabo Verde was “bound by mental constraints that denied cultural self-expression, self-fulfillment, and inherent legitimacy” (Cabral, 1966). These efforts readily explain Englebert’s (2000b) classification of Cabo Verde as vertically legitimate. Because the post-independence leaders were integral to the self-legitimatizing movement that had resisted, rather than supported, colonial leaders, Cabral, Pereria, and Pires received the inherent support of the Cabo Verdean electorate.

When constituents eventually expressed opposition to the PAICV, they did so through formal state channels, as evidenced by the 1990 elections. The lack of collective action against the State, and the absence of political coups within the state’s history illuminates the prevailing legitimacy of the State itself. Cabo Verdeans have proved that dissatisfaction
with one political leader or governing coalition is not sufficient motivation to exit or transform the State. Cabo Verde’s early colonial heritage is also evident in the modern economic structure. The early division of land into smaller plots and share-cropping structures with more equitable land ownership across racial lines primed the State for more equitable divisions of investment, wealth, and job creation as the State evolved, limiting the conditions of economic marginality that provoke economic informality. Moreover, African and Creole slaves during the colonial period had no basis to retain pre-colonial institutions or economic practices because they lacked a foundation of shared language or culture. They also lacked capacity or initiative to build separate economic institutions because they worked in small groups rather than on large plantations like in other West African states.

In this regard, Cabo Verde had both a weaker basis for economic dualism during the colonial period, and stronger levels of post-colonial state legitimacy following independence. These dynamics certainly contributed to lower levels of informalization in the long run and highlight the importance of both economic transformation and legitimacy. While many African states are former settler colonies like Cabo Verde, the island state is unique in that there were no inhabitants, and therefore no economic institutions on the island prior to colonization. The high levels of legitimacy in Cabo Verde following independence allowed Pereria to not only capitalize upon the economic transformation that had occurred during colonization, namely the relatively equitable division of land rights, but extend investments to maintain high levels of growth and industrialization. Cabo Verde therefore appears to support the claim that economic transformation leads to lower levels of informality in vertically legitimate vs illegitimate states. This phenomenon becomes especially evident relative to the following case of Senegal, in which there were far lower levels of economic transformation and legitimacy, rendering a larger informal economy in the long run.
5.3 Senegal

The Senegambian region of West Africa, a territorial expanse stretching from the Senegal River to the Gambian River, encompasses most of present day Senegal and The Gambia, as well as parts of Guinea-Bissau and southern Mauritania (Barry, 1998). This region, home to many former kingdoms, primary among them being the Wolof, Serer, Jola, and Fula kingdoms (Barry, 1998), first encountered Portuguese and British traders in the late 1400s, who began coordinating with local leaders to export raw materials and establish a nascent Trans-Atlantic Slave Trade (Jaiteh, 2008). France established its first trading outpost in St. Louis in 1659, but played a lesser role in the slave trade than the British and the Portuguese throughout the 17th and 18th centuries (Barry, 1998). Instead, by the early 19th century the French had established small civilizations in both St. Louis and Goree Island (with large slave majorities), where they concentrated on intensifying the cultivation and exportation of raw materials, namely groundnuts (peanuts) and arabic gum, via collaboration with local leaders (Jaiteh, 2008).

The French colonial project in Senegal differed from the British, Dutch, and Portuguese in its endeavor to establish French provinces abroad. Unlike other European states who were primarily interested in colonialism for the economic opportunities that it offered, the French, at least rhetorically, endeavored to execute “une mission civilisatrice” (civilizing mission).\footnote{This phrase captures France’s attempts to “transform” colonial subjects into French people, which they used as their primary rationalization for colonialism. The strategy entailed settling on the land, establishing new institutions, and manipulating the cultural heritage of French West Africa. This ideology was particularly different from the British colonial mission, which did not advocate for the assimilation of the peoples that they colonized (Chafer, 2001).} After establishing settlements on the coast, the French oriented their focus towards trade routes leading into the interior of the continent (Klein, 1998). Specifically motivated by competition with the British during the European “Scramble for Africa” in the later 1800s, France began an expansionist program under the direction of General Louis Faidherbe, governor of Senegal, in 1854, (Wooten, 2019). Faidherbe led a military campaign following the Senegal River into the interior of Sengambia with the objective of occupying all villages that
were already critical to the French commodity trade (Wooten, 2019).

Meanwhile, the French government abolished slavery in France, allowing Faidherbe to re-frame his conquest as not only a civilizing mission, but as a necessary step in the further eradication of slavery (Klein, 1998). He argued that the only way to eliminate slavery within the colony was to conquer the entire territory, and reasoned that anti-slavery rhetoric would undermine African resistance to France’s attempts at imperial conquest (Klein, 1998). Successful in his objective, Faidherbe benefited from collaboration with pre-colonial polities. There was an extensive rivalry between the Wolof and Serer ethnic groups, and while many polities contained both ethnic groups, there was competition among them to garner the favor and protection of the French settlers. Many Wolof in particular put extensive energy into building a strong relationship with the French, portraying the Serer as savage, inferior beings, in an effort to win the Frenchmen’s support in the inter-ethnic rivalry (Keese, 2015).

Following the end of the Franco-Prussian war, the newly erected Third Republic \(^2\) moved to strengthen its relationship with Senegal \(^3\), officially recognizing the colony as a part of France, and allowing Senegal to send a deputy to the French Assembly National (National Assembly), as well as elect a general council that held influence over select public policies in the colony (Klein, 1998). The Third Republic also launched a campaign to franciser (frenchify) the Senegalese population which ran parallel to a similar mission to encourage the rural French peasantry to cut ties with the countries from which they emigrated or were otherwise associated and adopt a comprehensive French nationality (Weber, 194). They embarked upon a campaign to secularize primary school education in the French countryside, as well as standardize curriculum across regions to be taught entirely in French (Johnson, 2004). In short, the Third Republic adopted the mentality and rhetoric that the government could make “Frenchmen” out of rural peasantry, an objective that naturally extended to the Senegambian people (Johnson, 2004). In 1872, the French government classified the settle-

\(^2\) The provisional French government following Napoléon Bonapart’s defeat in the Franco-Prussian War

\(^3\) Senegambia was divided into Senegal and The Gambia because the British had established trade outposts along the Gambian river and were insistent on maintaining this territory. Today The Gambia is still entirely surrounded by Senegal.
ments of St. Louis and Goree as communes, meaning they received the “same municipal prerogatives and rights as French communes” (Diouf, 1998), and were extended French citizenship. Rufisque and Dakar later became communes in 1880 and 1887, respectively (Diouf, 1998).

These communes evolved into a base for the French mercantile colonial project, as well as a headquarters from which France could disseminate cultural norms, institutions, and power relationships:

“Like Paris, the Four Communes in Senegal represented locales where the French language was to be spoken and French culture valorized. Strategically speaking, the dissemination of the French technology of nationalism began with the successful transmission of the ideology of language hierarchy, which could be projected onto new geographic configurations like the Four Communes” (Johnson, 2004).

Using what Johnson (2004) refers to as the French “technology of nationalism,” the French colonizers cultivated an elite class of “French” Africans by establishing a French education system that encouraged assimilation by forbidding the use of native languages or practice of local customs. Some Senegalese readily accepted this system. Madicke Wade, a Senegalese school teacher during this period, explained in an interview that the French language broke down the language barrier between the Wolof, Pulaar, and Serrer tribes, and also afforded Africans more respect in the eyes of a Western audience (Johnson, 2004). Many other Senegalese opposed the French assimilation process. Wolof leaders in particular, who were, like the French, looking to extend their reach in the region encouraged the use of the Wolof language in homes and community spaces, and worked to increase the centrality of Islam to social life in order to undermine France’s Catholic colonial mission (Gellar, 1982). Though clearly contentious, the relationship between France and the quatre communes was one of Francite, a concept that captures the idea of selective assimilation that goes beyond language to encapsulate the notion of thinking of oneself as French (Seck, 2012).

Conversely, France’s relationship with the Senegalese countryside was purely exploitative.

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4 Assimilation was selective because it did not apply to Senegalese people living outside the four communes, who classified as French subjects, not French citizens.
Two capitalist firms, *le Compagnie Francaise d'Afrique Occidentale* (The French Company of West Africa CFAO)\(^5\) and *le Societe Commercial Ouest African* (The West African Commercial Society SCOA), monopolized the agricultural industry, extracting wealth from the Senegalese peasantry. They encouraged the cultivation of large mono-cultures, most prominently groundnuts (peanuts), and profited by exporting most of the harvest to the French mainland (Boone, 1992). The groundnut trade thus began in large scale in the 1880s and grew throughout the late 1800s and early 1900s. By 1936 the seasonal harvest reached 600,000 tons (Kennedy, 1988). Peasants who cultivated the cash crops never acquired their own capital but depended upon each season’s harvests for substance (Rodney, 1972).

Moreover, the French companies hired foreign intermediaries, largely Lebanese and Syrian immigrants (Rodney, 1972), to act as middlemen in the trade system between the Senegalese peasants and French exporters. These efforts effectively stifled nascent Senegalese enterprise and confined cash crop farmers to the lowest levels of the social and economic hierarchy in the new colonial order. As Idowu (1969) expresses: “The institutions were set up not as an unsolicited gift but in deference to the request for them by the articulate elements in Senegal led by the Bordeaux commercial firms who controlled the economic life of the colony.” The French also barred Senegalese farmers from voting on direct taxes or imposing customs duties, effectively rendering seneglese constituents dependent on the French colonial government for allocations of resources (Idowu, 1969).

Kennedy (1988) outlines three reasons why the explosion of the groundnut industry and the exploitation of the Senegalese peasantry eventually led to the economic “underdevelopment” of the Senegalese population. First, it propagated highly uneven patterns of economic

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\(^5\) Today the currency for West African member States of the Union Économique et Monétaire Ouest Africaine (West African Economic and Monetary Union), which includes Benin, Burkina Faso, Guinea-Bissau-Bissau, the Côte d’Ivoire, Mali, Niger, Senegal and Togo, is the West African CFA Franc, which was once pegged to the French Franc, and is now pegged to the European Union’s Euro. According to some experts, CFA, which today stands for Communauté Financière d’Afrique (Financial Community of Africa) is a direct derivative of Compagnie Francaise d’Afrique (CFA) from the colonial period. The continued use of this acronym is not only symbolic of France’s colonial rule over Senegal, but indicative of the ongoing relationship of dependency between France and its former colonies, as well as the control that France has retained over monetary policy in West African States.
development in the colonial territory: “enclaves of intensive peasant cash-crop production, plantation agriculture or mining activity coexisted uneasily with vast regions and sectors that were starved of capital and only marginally exposed to modernization” (Kennedy, 1988). The French companies only invested in capital and infrastructure in certain production zones and left general expenditure on roads, infrastructure, education, agricultural improvements, and other public goods to the responsibility of local inhabitants, greatly limiting the magnitude of investments that could be directed towards broad-based economic development (Kennedy, 1988). Secondly, the incorporation of the Senegalese economy into the global economic order prioritized the exportation of groundnuts and other raw materials. This practice rendered the already fragile Senegalese economy dependent on and vulnerable to global price fluctuations. Thirdly, the existence of monopsonies and trade restrictions guaranteed that Senegal remained subservient to the demands of the French metropole. Boone (1992) largely concurs with this analysis, stating that “peasant production of an export crop, the primacy of trading networks rather than production itself as a locus of capital accumulation, and the weakness of the indigenous business class,” damaged the development of the post-colonial political economy in Senegal.

In highlighting the virtual absence of a Senegalese business class, limited capital penetration, and deviation between investments in productive and unproductive zones of the economy, both Boone (1992) and Kennedy (1988) reveal the gradual development of dual economic systems. Although Senegalese peasants were forced to participate in France’s extractive economic institutions, French colonizers did little to manipulate Senegalese’s subsistence style of living or the economic organization between Senegalese natives. In Boone’s words:

“Unlike industrialists or farmers, these economic actors [French Merchantialists] did not control land or land use, technologies, laborers, or the labor process. Although merchant capital dominated the colonial economy, it did not master production” (Boone, 1992).

In effect, two separate economic systems emerged - a collection of capitalist colonial extractive institutions, and a locally determined organization of labor and exchange. Moreover,
the limited transformation of rural economic systems hindered Senegal’s capacity to commit to the industrialization or “modernization”\(^6\) of the economy, limiting the ability to sustain economic growth in the long run. French colonizers deliberately avoided restructuring the land-tenure system or labor relations within Senegal, which would have enhanced productivity. They believed that doing so would risk compromising the Frenchmen’s place at the pinnacle of the social, economic, and political order implemented by the colonizers (Boone, 1992). France’s objective was to expand the mercantile extractive system as much as possible without economically or politically empowering the Senegalese peasantry in a way that would undermine their position of dominance (Boone, 1992).

Despite the dominance of the colonial export system, the dynamic between Senegal and France changed significantly in the mid 1900s. Senegalese troops fought in the French army in both World Wars, eventually helping to free France from Nazi occupation (Wooten, 2019). Similar to several other colonies at the time, the development encouraged mounting dissatisfaction for the colonial system among the Senegalese and motivated a drastic increase in independence rhetoric (Wooten, 2019). To deter unrest, France allowed colonies to send representatives to the French National Assembly in 1945 (Heitz, 2008), yet this concession did little to placate Senegalese natives. Three years later, the French educated poet, Leopold Senghor, founded the *Bloc Democratique Senegalais* (BDS), a broad coalition party that united urban workers with the rural agricultural sector (Heitz, 2008). Senghor accomplished this feat by establishing an alliance with the Marabouts, leaders of the Mouride Muslim brotherhood in Senegal (Boone, 1992). Marabouts are spiritual leaders within Senegal who amass a following of devotees who exchange monetary donations for spiritual guidance. Marabouts therefore garnered extensive power at the local and regional level within Sene-

\(^6\)Scholars tend to refer to modernization as synonymous with industrialization. However, these terms indicate different phenomenon. Industrialization refers to the increasing role of capital in industry while modernization implies that an economy is more developed than it was previously. The use of this language therefore insinuates that industrialization means committing to a development path pioneered by European states, and that a failure to follow this path renders an economy “less than” developed European economies (Anievas and Nisancioglu, 2015). I mean to indicate industrialization as investment in capital and transformation of production without indicating that one system of production is better or less than the other.
By obtaining the support of the Marabouts of the Mouride brotherhood, Senghor also secured the support of their rural followers. Mourides were predominately intermediaries in the colonial and post-colonial cash crop export system, and were thus invested in retaining not only the mercantile economic system but a strong economic relationship with France as the primary importer of Senegal’s groundnuts and other cash crops (Boone, 1992).

In 1956 Charles de Gaulle responded to growing pressure among the international community to recognize the right to national self-determination (Walker, 2019), and passed the loi cadre, giving colonial protectorates greater political autonomy and universal suffrage (Jacob, 2013). Two years later, de Gaulle offered up an opportunity for even greater autonomy, hoping to deter full independence (Jacob, 2013). Given the precarity of his ruling coalition, Senghor advocated to maintain a close relationship with France, and encouraged party members to vote to accept de Gualle’s proposal of limited autonomy within the French colonies (Jacob, 2013). This position caused a subset of Senegalese Marxist-Lenonist thinkers, comprised of trade unions, student groups, urban workers, and other left leaning intellectuals to break off and form their own party, the Parti Africain de l’Indépendance (PAI) (Boone, 1992). Senghor “could not afford to bend to nationalist pressures that would result in the defection of the powerful religious leaders from his political camp. He sacrificed the left wing of the party instead” (Boone, 1992). Given the primacy of the Mourides to Senghor’s claim to power it is clear that he pushed to maintain Senegal’s relationship with France not only to preserve the economic superiority of the ruling elites, but the cohesion of the ruling coalition. Doing so was central to maintaining his own popularity among the rural constituency. Despite Senghor’s advocacy, de Gaulle awarded independence to the Mali Federation, the joint territory of present day Senegal and Mali, in 1960. A few months later Senegal split from Mali, officially declaring their own independence under the leadership and presidency of Leopold Senghor (Jacob, 2013).

By 1960 Senghor was well known as a credible intellectual and political figure, and was particularly revered for his leadership in the Union Progressiste Sénégalaise (UPS), the so-
cialist political party that replaced the BDS) (Alalade, 1981). He had contributed to the drafting of the Constitution of the French Fifth Republic, been twice elected as a representative to the French National Assembly and served as the Mayor of the Senegalese town of Thies (Johnson, 2004). However, Senghor was also not a French citizen (he was born outside of the Four communes), nor a member of the Wolof majority ethnic group, nor a Muslim, the dominant religious identity in Senegal (Johnson, 2004). Therefore, though Senghor was well educated and well respected by French politicians and the educated Senegalese elites, he lacked a strong credible foundation on the basis of identity alone. To rectify the fact that his identity was unrepresentative of the majority of the Senegalese population, Senghor gravitated towards french elitism, deliberately working to legitimize his leadership by maintaining a close relationship with the French government. He hoped that emphasizing his “Frenchness” would boost his credibility as a qualified leader, and support from the French government, and insisted upon cultivating French institutions in Senegal. For example, he incorporated French language and educational systems into the standardization processes of post-colonial national policy (Johnson, 2004).

Senghor and his administration also appropriated the colonial economic apparatus. He adopted “market structures forged under the hegemony of colonial merchant capital to extract surplus from the peasantry,” (Boone, 1992) by extending state control to the commercial circuits in the economy. Senegal continued to export raw materials to the French metropole, which not only benefited France, but advantaged the Mourides, who accrued wealth by operating as middle men in the appropriated system. Therefore, the post-colonial regime faced the same contradictory objectives as the colonial apparatus; they endeavored to expand economic growth while maintaining their own positions of power by constraining developmentalist projects that would politically or economically empower the peasantry (Alalade, 1981). Consequentially, the post-colonial Senegalese ruling class deliberately truncated the growth of indigenous industry in order to make room for foreign capital and investment (Boone, 1992). Doing so helped advance Senegal’s economic standing and integration into
the global market without jeopardizing the viability of the nascent bourgeois project or the patronage system adopted by the ruling class. Moreover, the adaptation of the mercantilism system as derivative of colonial extractive economic institutions served to not only support the power of the ruling party, but maintain the cohesion of the ruling coalition. The system was especially central to placating the Mourides, for whom Senghor was dependent upon for rural support.

The ascendancy of the new ruling class was exemplified just a few years after independence when Prime Minister Mamadou Dia executed a plan he referred to as *Animation Rural*, a strategy to economically empower rural Senegalese peasantry and increase their participation in politics. Mouride leaders saw Mamadou’s actions as a threat to their political and economic power base, and pushed for his removal from office (Boone, 1992). Senghor, subservient to the Mourides’ wishes, sent paratroopers to arrest Mamadou in 1962 (Alalade, 1981). The following year Senghor moved to consolidate his own power, changing the Constitution to abolish the position of Prime Minister. Senghor’s party subsequently worked to dismantle the opposition, ultimately arresting 45 leaders in the PAI (Alalade, 1981). The remaining leftist political opposition went underground (Alalade, 1981). After Mamadou’s departure from office the UPS developed a significant urban bias made evident by the fact that although the rural population comprised approximately 75 percent of the population throughout the 1960s, they received less than 20 percent of the total government expenditure (Boone, 1992).

Clearly, power relations in Senegal underwent little change following independence. Senghor employed many French civil servants within his government, and resisted calls among other African State leaders to Afracanize the state bureaucracy (Boone, 1992). Elites did not forge new relationships with the rural constituency, but rather continued to rely upon and strengthen relationships between Mourides and their followers. They looked to the Mourides’ power network to maintain revenues from the groundnut industry while limiting any potential political opposition. The Mourides also opposed land reform acts and the expansion of
public schooling, therein maintaining their monopoly over the agricultural industry (Boone, 1992). These developments make clear that the Senegalese government put little energy into establishing their own basis of legitimacy, but rather employed the Mourides to establish pseudo legitimacy, or legitimacy by association. Constituents did not necessarily express strong support for the government, but rather their own Marabout, who in turn exchanged his own support for economic and political privileges.

Due to this political strategy, the agricultural industry remained essentially pre-capitalist, while Senghor prioritized the incubation of French industry, investment, and trade within Senegal. Farmers were forced to sell groundnuts and other produce at incredibly low prices, receiving little revenue, and subsequently pay very high prices for French manufacturing imports, losing out on both sides of the transaction (Schumacher, 1975). Since France controlled the private sector, the only remaining option for Senegalese economic advancement was through the public sector, which was manipulated by corrupt bureaucrats. Schumacher (1975) describes the perceptions of the UPS at the time, articulating,

“Political clientalism and machine politics epitomize the style of participation and organization embodied by Senegal’s ruling party ... Clientalism and patronage pervade the function of the political, administrative, economic, and social structures... politics is about governmental jobs sinecures, contracts, licenses, subsidies, loans, scholarships, payoffs and favors.”

Indeed, evidence indicates that much of the population in Senegal at the time viewed the UPS not only as the dominant political party, but as a dominant elite political class. General sentiments of corruption and inequity came to head in May 1968 when students and union workers, following the lead of their French counterparts, went on strike, boycotting exams and protesting in the streets (Darboe, 2010). Police violently suppressed the protests and expelled students from Dakar’s university campus, ultimately arresting over 900 students (Darboe, 2010). Following these protests Senghor committed to the “Senegalization” of the public and private sectors, and responded to the political unrest by co-opting opposition members into mid-level positions of his administration. Essentially, “groups were channeled away from competition for control over the state itself, and into competition for control over
constituent parts of the state apparatus” (Boone, 1992).

Despite these adjustments, Senghor continued to maintain a close relationship with France. The economic structure failed to support growth or stability leading Senghor to procure several loans from the World Bank in the mid 1970s, further undermining state legitimacy by linking Senegal’s economic development to obligations to the international community. The State also began encouraging domestic industrial growth, which had stagnated following the colonial period. However, government officials only selectively granted operating licenses to certain businesses and traders, ultimately institutionalizing what became a elitist formal business sector. Later, the State incentivized growth in small scale agricultural projects by issuing licenses required to import and export goods to members of the informal sector. However, the State maintained a system of patronage by favoring certain business owners and inserting them into vital industries and trading circuits. Most government resources came from import taxes, so the prioritization of certain businesses and industries highlights how the State’s actions were aimed at expanding state revenue rather than building comprehensive economic growth. Simultaneously, the already rural groundnut and agricultural sector underwent a further ruralization process. Islamic leaders, looking to separate themselves from the economic turmoil of the State broke with the government developing their own parallel structure of authority. Individual households began substituting away from commercial groundnut production towards subsistence based agriculture. The shift also triggered the impetus of a mass exodus of rural youth to urban centers in search of more stable jobs and higher wages, ultimately spreading economic informality to cities.

Senghor’s post-colonial government attempted to accomplish three tasks: First, maintain the colonial extractive economic structure, second, preserve the type of political marginalization that would make an extractive economic structure possible, and third, execute a modernization strategy that would facilitate narrow economic growth and integrate Senegal into the world market. Ultimately Senghor’s administration failed at achieving these contradicting objectives.
"The ability of the State to expand commodity production, even within these social relations of rural production, was compromised by the regimes overriding interest in draining wealth out of the rural sector. The tendency to intensify the exploitation of an impoverished groundnut producing peasantry succeeded only in driving producers away from the state controlled groundnut purchasing circuits and markets for inputs. The groundnut economy decayed and the states monopolies over rural trade disintegrated" (Boone, 1992).

Instead of using the State to facilitate comprehensive development initiatives, the new ruling class adopted the same state apparatus used by French colonizers to underpin the hegemonic colonial economic system. It maintained the same extractive economic institutions instigated during colonialism, ultimately siphoning 60 percent of its revenues towards paying the salaries of government officials, many of whom were French (Andersson and Andersson, 2019). Given these developments it is clear why Senegal’s informal economy today comprises such a significant proportion of its economy. Upon gaining power, Senghor had little basis on which he could claim identity-based legitimacy. He was neither Muslim nor Wolof and therefore was not representative of the majority of the Senegalese population. Rather than emphasizing his Senegalese background, Senghor implemented reforms that not only revealed the extent of his personal assimilation to the Francophone world, but championed French cultural practices and education over indigenous culture.

Therefore, in order to gain legitimacy in both a political and cultural sense, Senghor used patronage and clientalism to co-opt political elites into his ruling party, namely an expansive network of Marabouts, who delivered the support of Wolof and Muslim constituents. In essence, Senghor sacrificed any attempt at building vertical legitimacy in exchange for French support, and based horizontal legitimacy off of a loose coalition of religious elites, which temporarily boosted support for the ruling party, but never actually substantiated the legitimacy of the State itself. Regarding the state economic structure, the colonial apparatus in Senegal concentrated on export agriculture run by Mouride middle-men. By consequence, the French invested in infrastructure needed for the cultivation and production of certain mono-cultures, but didn’t instigate any transformation in Seneglese economic systems outside of the agricultural industry. Peasant farmers, who worked almost exclusively
with Mourides, maintained subsistence-style methods of production and exchange at the communal level, rarely engaging in wage-labor.

When the post-colonial government adopted the colonial economic structure they neglected to integrate rural Senegalese peasants into a wage-labor system. In fact, rural constituents clearly rejected a state supported formal economic system in refusing to buy fertilizer or raw materials from the State. Rather than participating in the formal groundnut industry, they chose to exit the state system in favor of subsistence style agriculture. Subsequent economic downturn led to the expansion of informalization in urban areas. These developments instigated a significant divide between the formal and informal economic systems in Senegal that remain salient today. Furthermore, the historical absence of state legitimacy renders the government incapable of formalizing much of the economy. These dual factors clearly illuminate why the informal economy is still more pervasive in Senegal than in most other developing states. The following section will detail how the Côte d’Ivoire, though endowed with a similar colonial heritage as Senegal, experienced lower levels of informalization in the long run. Unique interactions between pre-colonial and colonial institutions in the Côte d’Ivoire ultimately led to different levels of state-legitimacy and economic transformation than those in Senegal.

\section{Côte d’Ivoire}

Prior to colonization, the territory encompassed by the modern state of the Côte d’Ivoire contained several kingdoms whose domains spread into modern day Mali, Ghana, Liberia, and Burkina Faso (Meledje, 2018). Primary among these were the Dioula, roving traders who moved south when the Mali empire collapsed, the Kong, which formed in the early 1700s and immediately forged a close relationship with French merchants, the Samory Toure, which became the largest known pre-colonial empire in the Côte d’Ivoire, and the Baoule, a subset of immigrants from the Asante Empire in Ghana (Meledje, 2018). Unlike in Senegal where
pre-colonial polities largely competed for French support and protection (Keese, 2015), many of the Côte d’Ivoire’s pre-colonial kingdoms resisted colonization (Meledje, 2018).

Notably, Toure, the leader of the Samory Toure, wanted to expand the influence of his own empire, and strongly opposed the nascent Côte d’Ivoire colony. He “detested what the Ivory Coast stood for. [He] felt threatened by its economic success while at the same time offended by its status as an instrument, almost of a plaything, of France” (Schwab, 2004). Toure attempted to garner support from the Kong and Baoule Kingdoms and successfully procured arms support from the Baoule, but discovered that the Kong had already aligned themselves with the French settlers (Conroy, 2010). Toure attacked the Kong, burning the entire community, before being captured and exiled to Gabon in 1898 (Conroy, 2010). After removing Toure from power, France overpowered the Baoule and Samory Toure kingdoms, and fully consolidated their power over the Ivorians (Conroy, 2010). French colonial rule in the Côte d’Ivoire critically differed from that in Senegal. Because Saint Louis had already been named the capital of French West Africa, the Côte d’Ivoire lacked the so called “privileges” that came with being France’s administrate capital in the colonies. Namely, France did not extend French citizenship to any Ivorians. Still driven by the ‘‘le mission civilisatrice’’ ideology, the French cultivated a small class of French-educated Ivorian elites; however, the lack of citizenship within the colony meant that there was not the same class divide between African French citizens and French subjects as there was in Senegal.

Throughout the early 1900s French colonizers established three successful export industries in the Côte d’Ivoire: cocoa beans, wood, and coffee. The three commodities combined totaled over 70 percent of the colony’s total exports (Andersson and Andersson, 2019). Like in Tunisia and Senegal, France attempted to instigate a divide and rule strategy by using local leadership to collect taxes within these new production and trade systems (Meledje, 2018). However, executing the divide and rule strategy in the Côte d’Ivoire proved significantly more difficult than in France’s other colonial territories. The Côte d’Ivoire was home to many pre-colonial groups who unlike in Senegal, vehemently opposed the system
of taxation and continued to resist French colonialism. For example, in 1910 the Abe people mounted an armed resistance, and in 1915 the Bete and Boule joined the rebellion. The Boule eventually earned a reputation for waging the longest resistance war against the French colonizers (Meledje, 2018).

France sent thousands of more troops to the region throughout the early 1900s to subdue the uprisings, often framing their efforts as an altruistic effort to arrest ethnic warfare and advance the “le mission civilisatrice” rather than to suppress native peoples (Mortimer, 1969). Eventually, following several military failures, France appointed General Angoulvand as Governor of the Côte d’Ivoire. Angoulvand believed that colonial domination should be achieved through the complete suppression of the indigenous communities: “[He] applied his method of ‘burnt land’ ... This method consisted of destroying everything where resistance was occurring and imposing heavy taxes to force the local population to join the colonial state” (Meledje, 2018). His strategy included burning houses, destroying villages, and publicly decapitating indigenous leaders (Meledje, 2018). During this time France also implemented more of a direct-rule system of forced labor in the colony, requiring Ivorian men to work at least 10 days a year on plantations and infrastructure projects with no compensation. This practice aided the French in establishing a tighter hold on the Ivorian economy (Rotberg, 2005).

During the two World Wars France put extensive pressure on Ivorian farmers, notoriously demanding regions to produce commodities central to the war effort like rubber and latex when neither rubber trees nor wild latex grew in those regions (Lawler, 1990). They also kept local prices for staple goods like rice artificially low in an attempt to avoid instigating famine in the colony. However, these policies further hurt Ivorian farmers who could not meet an adequate standard of living when their crops garnered such little revenue (Lawler, 1990). In 1944, Ivorians formed the Syndicate Agricole Africaine (SAA), which was designed to encourage productivity, and act as a union through which farmers could collectively advocate for prices equal to what French farmers in the Côte d’Ivoire received (Lawler, 1990).
Two years later, the syndicate became the colony’s first political party, the Parti démocratique de la Côte d’Ivoire (PDCI), before joining the Rassemblement Démocratique Africain (RDA), a pan-Africanist coalition party that stretched across multiple French colonies. Felix Houphouët-Boigny, an Ivorian medical doctor who had seen the mistreatment of indigenous workers first hand, became a well known union organizer and adopted a leadership position within the party (Lawler, 1990). Houphouët-Boigny gained support and popularity by “voicing the widespread African discontent of forced labor, [and] standing up for African rights as well as defending the class interests of emerging capitalist farmers” (Hargreaves, 1988). Houphouët-Boigny also appealed to his identity as a member of the Baoulé people, the group known for mounting the most extreme opposition against French colonialism. Houphouët-Boigny was thus able to present himself as an authentic champion of the African people, despite his elitist French education.

These developments indicate the significant economic and political changes that took place during the two World Wars in the Côte d’Ivoire. For the first time in colonial history, the French mainland actually *sent* money to the Côte d’Ivoire to be allocated towards the restoration and modernization of the Ivorian agricultural sector (Lawler, 1990), a significant change of pace from the prevailing practice of wealth extraction within the colonies. To further motivate Ivorian workers, France ended forced labor practices and the exploitative tax collection system, and instead invested in roads, railways, and other infrastructure (Lawler, 1990). Commerce and the private sector grew and participation in formal market structures increased. This was especially the case in Abidjan, the capital city at the time, as an increasing number of workers migrated to the coast to work in the port city. Politically, a broad coalition movement formed between African elites, marginalized farmers and peasants, and indigenous leaders under the umbrella structure of the SSA and RDA, creating a strong Ivorian nationalist movement that galvanized collectivist action against the colonial regime (Lawler, 1990).

In the years following the end of World War II, the anticolonial sentiment in the Côte
d’Ivoire grew. Houphouët-Boigny was elected to the French National Assembly in 1951, and elected mayor of Abidjan in 1956. That year, the Côte d’Ivoire gained the same autonomy and universal suffrage as Senegal under the loi cadre (Conroy, 2010). Like Senghor, Houphouët-Boigny opposed full independence from France. He advocated for African unity within the framework of the French Union, believing that the colonies had to make political concessions in order to obtain economic benefits from France (Alalade, 1979). Houphouët-Boigny was also acutely aware of the competition between Abidjan and Dakar to be the economic center of French West Africa, and hoped that supporting the French federalist government would increase France’s favor towards Côte d’Ivoire relative to Senegal. He even proposed breaking up the AOF (West African Federation) into two political units so that both Dakar and Abidjan could become the headquarters for their respective federations (Alalade, 1979).

Despite Houphouët-Boigny’s advocacy, the Côte d’Ivoire, like the other French West African colonies, gained full independence in 1960. Houphouët-Boigny, having already built credibility and popularity as a political leader, was elected president of the independent State. Irrespective of Houphouët-Boigny’s fears of economic instability following independence from France, the Ivorian economy flourished under his stewardship throughout the 1960s. The Côte d’Ivoire became one of the 15 fastest growing countries in the world, growing at a rate of 10 percent per year (Conroy, 2010). Houphouët-Boigny’s success in Côte d’Ivoire relative to other states in the region was later labeled the “Ivorian Miracle” (Hecht, 1983).

To achieve these ends, Houphouët-Boigny implemented liberal immigration and citizenship policies, attracting approximately four million skilled and unskilled workers to the country in the decades following independence (Hecht, 1983). He effectively turned the Côte d’Ivoire into a West African hub for human capital that dominated the global export industry in coffee, cocoa, and palm oil.

Additionally, Houphouët-Boigny committed to several Ivoirization initiatives, which involved giving equal treatment to foreign and domestic investors, and encouraging domestic
participation in private industry (Andersson and Andersson, 2019). By the 1970s, private Ivorian investors owned around 12 percent of the country’s industry, and the State owned 50 percent. In contrast, Senegalese investors only owned 3 percent of Senegal’s industry, while the State owned less than 25 percent (Andersson and Andersson, 2019). These efforts enabled the Ivorian government to collect over 20 percent of its revenue from taxes compared to just 15 percent in Senegal, and develop significantly greater fiscal autonomy than Senegal, whose groundnut industry began stagnating after independence (Andersson and Andersson, 2019). Noting the difference between Senegal and the Côte d’Ivoire’s development under Senghor and Houphouët-Boigny, Andersson and Andersson (2019) articulate,

*In Senegal, President Senghor pursued a home-grown variant of African socialism and actively sought to develop ties between the central government and regional elites, such as the Mourides, purportedly building on a tradition of ethnic tolerance. In Côte d’Ivoire, President Houphouët-Houphouët-Boigny refuted ideology and banked on maintaining support from the politico-economic elite and the broader population by delivering economic prosperity under a formula labeled pragmatic capitalism.*

The Côte d’Ivoire also spent less revenue on bureaucratic personal than Senegal, and spent more on investments in education, infrastructure, health care, and other social services (Hecht, 1983). However, despite these inclusive growth-oriented economic reforms, Houphouët-Boigny proved to be much less politically democratic than Senghor. While Senghor stepped down after 20 years in power, paving the way for elections and peaceful democratic transition, Houphouët-Boigny consolidated his power into autocratic rule. Filling the role of the stereotypical “African Big Man,” Houphouët-Boigny suppressed political opposition (Mimiko, 2006), amassed a personal wealth totaling somewhere between seven and eleven million dollars, and insisted upon moving the capital of the Côte d’Ivoire from the large port city, Abidjan, to his hometown, Yamoussoukro, a smaller town in the interior of the country (Conroy, 2010). There he insisted upon directing state revenue towards the construction of several elaborate buildings, including an international airport and a Basilica (which he dedicated to Pope John Paul II), that cost nearly 200 million dollars (Conroy, 2010).
Following an economic crises in the 1980s that caused by sharp declines in global commodity prices, the poverty rate in the Côte d’Ivoire rose from just under 10 percent to over 30 percent. Protesters began mounting demonstrations in the street, calling out Houphouët-Boigny for instigating widespread corruption (Conroy, 2010). In 1988, Houphouët-Boigny opened the state presidential elections to multiple parties and easily won re-election for his seventh term against political rival Laurent Gabago. However, soon after the elections, Houphouët-Boigny developed prostate cancer and passed away in 1993, doing little to prepare the Côte d’Ivoire for a successor or a full democratic transition (Mimiko, 2006). Houphouët-Boigny’s legacy of political centralization coupled with the subsequent power vacuum gave rise to politics of exclusion that increased tensions between ethno-regional and religious identities (Mimiko, 2006). Consequently, the country broke out into back to back civil wars in 2002 and 2011, and still struggles to regain political stability today.

The Côte d’Ivoire proves to be the most complex of the three cases in the evaluation of economic informality because of its history involving many contradictory political and economic mechanisms. It is clear that the French instigated higher levels of economic transformation in the Côte d’Ivoire than in Senegal, as they enacted a system of forced labor which evolved into a formal wage-labor system. France also invested more in the production of multiple profitable commodities, especially during the war-time era. This comparison, which indicates that the Côte d’Ivoire experienced greater economic transformation than Senegal points out a fault in the measurement of economic transformation in the regression analysis. Senegal was coded with a higher level of economic transformation than the Côte d’Ivoire, however the case studies reveal the source of this difference stems almost entirely from France’s investment in Senegalese mono-cultures. In actually, the economic system in the Côte d’Ivoire underwent a more comprehensive transformation than in Senegal. This phenomena possibly explains why economic transformation was positively, and not negatively correlated with Informal economy size.

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7 Gabago had spent most of the 1980’s in exile in France, significantly disadvantaging his potential electoral success. He did eventually become president of the Côte d’Ivoire in 2000.
5.5 Key Takeaways from West Africa

Following independence Houphouët-Boigny kept the Côte d’Ivoire on a trajectory of economic development, centering his focus on investments in production and industry to produce the Ivorian Miracle (Hecht, 1983). Additionally, not only did the French and Houphouët-Boigny work to augment growth of the formal economic system, but Houphouët-Boigny’s policies attracted a high percentage of immigrant labor from the surrounding regions, thereby undermining the shared heritage necessary for maintaining pre-colonial systems. In terms of legitimacy, Houphouët-Boigny clearly attempted to appeal to a narrow base of vertical legitimacy by emphasizing his identity as a member of the Baoule kingdom, a group known not only for their existence prior to colonialism, but for their protracted armed opposition to colonization. However, Houphouët-Boigny, like Senghor, maintained a close relationship with France, and was even criticized for spending more time in Paris than in the Côte d’Ivoire as well as for his close friendship with Charles de Gualle. These actions clearly undermine the legitimacy of his pre-colonial identity. Moreover, Houphouët-Boigny did little to rectify the horizontal illegitimacy of the post-colonial state, made evident by the breakout of ethno-regional violence soon after his death. In many ways, civil war is an even more extreme manifestation of state illegitimacy than informality. For these reasons, it appears that economic transformation, and not legitimacy, explain the majority of the deviation in informal economy size between Senegal and the Côte d’Ivoire, although legitimacy certainly played a significant role in Houphouët-Boigny’s capacity to foster industrialization.

5.5 Key Takeaways from West Africa

Despite their numerous similarities in culture, colonial heritage, geographic location, and economic endowments, the process-tracing in this chapter reveals exceedingly different evolutionary patterns in Cabo Verde’s, the Côte d’Ivoire’s, and Senegal’s institutional development. A summary of the key points from each case is presented in Figure 5.2. While both the Côte d’Ivoire and Senegal were colonized by France, pre-colonial polities in Sene-
gal adopted a far more collaborative relationship with the colonists than their counterparts in the Côte d’Ivoire. However, France instigated much more significant changes in Ivorian economic institutions than in Senegalese institutions, largely because their collaborative relationship with the Mourides in Senegal made it unnecessary to instigate a system of forced labor. This dynamic ultimately led to lower levels of economic transformation and state legitimacy in Senegal than in the Côte d’Ivoire following the colonial period. In contrast, Cabo Verde was not settled prior to colonization and therefore did not face a “crises of legitimacy” (Englebert, 2000b) as in the other two colonies, which was reflected in the ways in which Cabo Verdean leaders tended to appeal to the shared Creole identity on the island. Following independence, the higher levels of state legitimacy in Cabo Verde helped facilitate state investment in the economy, much like in the Côte d’Ivoire. The variation in economic transformation and legitimacy in the three cases highlight the importance in each of these components in explaining variation in economic informality, as well as the interdependence of the three components. Further research could better quantify these relationships by matching the historical evidence presented in this chapter to specific causal mechanisms, thereby rejecting alternative hypotheses.
### 5.5. **KEY TAKEAWAYS FROM WEST AFRICA**

#### Figure 5.2: Cases Summary

<table>
<thead>
<tr>
<th>Cases</th>
<th>Cabo Verde</th>
<th>Cote d’Ivoire</th>
<th>Senegal</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Vertical Legitimacy</strong></td>
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<td></td>
<td></td>
<td>0</td>
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<tr>
<td><strong>Horizontal Legitimacy</strong></td>
<td></td>
<td></td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td><strong>Economic Transformation</strong></td>
<td>—</td>
<td>64</td>
<td>75</td>
<td>46</td>
</tr>
<tr>
<td><strong>Informal Economy Size</strong></td>
<td>40 % GDP</td>
<td>47 % GDP</td>
<td>53 % GDP</td>
<td>31 % GDP</td>
</tr>
<tr>
<td><strong>Unique Factors</strong></td>
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<td></td>
<td></td>
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<tr>
<td>➢ Not settled prior to colonization</td>
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<tr>
<td>➢ Formed a unique Creole identity between Portuguese settlers and imported slaves</td>
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<tr>
<td>➢ European style feudal economic structure</td>
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<tr>
<td>➢ Protracted fight for independence with strong appeals to cultural identity</td>
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<tr>
<td>➢ Independence party = Socialist &amp; Pan-Africanist party</td>
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<tr>
<td>➢ Pre-colonial resistance to colonization</td>
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<tr>
<td>➢ Economic transformation during colonialism, including a wage-labor system</td>
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<tr>
<td>➢ Capitalist “Ivoirian Miracle” following independence</td>
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<tr>
<td>➢ Houphouët-Boigny ground support in Baoule identity, but also remained close with France</td>
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<tr>
<td>➢ Civil War in 2002</td>
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<tr>
<td>➢ High levels of inequality between French citizens and French subjects</td>
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<tr>
<td>➢ Cash crop colony with little economic transformation</td>
<td></td>
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<tr>
<td>➢ Clientalist post-colonial government co-opted Islamic leaders: exchanged rural support for economic concessions</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>➢ Senghor opposed independence and remained close to France</td>
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</tbody>
</table>
Chapter 6

Moving Forward

On any given day, the streets of Dakar, Senegal are teeming with people commuting to school and work, gathering around temporary food stands to eat breakfast or lunch, shopping for new clothes, tending to their animals, praying, working out, and buying bread and produce for dinner. In downtown Minneapolis, Minnesota, the streets are similarly filled with people commuting to work, running errands, and visiting restaurants and coffee shops. Unlike Dakar, however, it would be rare to see someone doing their errands in the street itself. The underlying reason is that while in Dakar, the majority of economic interactions are informal, in Minneapolis, most economic interactions are formal. The primary objective of this thesis has been to explain the variation in economic informality between these two cities, as well as every other city and region in the world. Building upon a strong foundation of scholarship studying the effects of colonialism, institutions, and legitimacy on development, I hypothesized that variation in informal economy size is contingent upon both the change in economic institutions that occurred during colonialism (prompting economic dualism), and the legitimacy of the post-colonial state. Specifically, I speculated that the interaction of these two phenomenon would have greater explanatory power over economic informality than either component individually, and conjectured that economic transformation would produce smaller informal economies in legitimate versus illegitimate states.
I used two methods of analysis to approach this question. First, I employed a regression analysis to determine the impact of legitimacy and economic transformation, respectively and together, on global variation in informal economy size from 1960 to 2018. The primary finding from this analysis was that legitimacy, both vertical and horizontal, negatively correlated with informal economy size, although the findings for horizontal legitimacy were far more consistent than the findings for vertical legitimacy. A unit increase in horizontal legitimacy, that is, a significant reduction in the percentage of a state’s population belonging to an ethnic group that was partitioned by colonial borders, produced on average a 6 percent decrease in informal economy size, indicating that ethnic groups play a significant role in the formation of informal economies. In general, these findings demonstrate the centrality of post-colonial state legitimacy in explaining variation in state-level informal economy size.

Contrary to expectations, economic transformation is positively correlated with informal economy size, a result that warrants deeper investigation into the nature of the relationship between economic transformation and informal economy size. Lastly, consistent with hypothesis H3, the interaction between vertical legitimacy and economic transformation produced a negative correlation with informal economy size, although this result was contingent on a smaller sample and was not consistent across models.

I subsequently conducted three case studies in West Africa using secondary source evidence to piece together a historical narrative that would illuminate how the evolution of certain institutions ultimately influenced economic informality. Cabo Verde, which was not inhabited prior to colonialism, allowed me to study the evolution of a vertically legitimate state. Senegal and the Côte d’Ivoire allowed for a most-similar case comparison as they are both former French colonies with comparable development metrics. From these case studies I concluded that Senegal lacked both the foundation of economic institutions and levels of post-colonial state legitimacy necessary for implementing or sustaining inclusive economic growth. Endowed with a weak economy and a neopatrimonial governance system, individuals were motivated to exit the formal economy following the colonial period. In Cabo
Verde, high levels of post-colonial state legitimacy allowed for the government to promote inclusive, development-based economic policies that ultimately reduced economic informality despite a weak industrial foundation. Lastly, the Côte d’Ivoire experienced a more significant structural change in their economic institutions during colonialism, but was still left with a colonial legacy of economic dualism following independence, unlike Cabo Verde. Houphouët-Boigny, who centered his focus on the Ivorization of the economy, was able to harness some legitimacy by appealing to pre-colonial institutions as well as his own pre-colonial identity. He harnessed this legitimacy to implement economic policies that ultimately led to lower levels of informalisation. However, this legitimacy dissolved after Houphouët-Boigny’s death with the outbreak of the civil war.

The comparison between the Côte d’Ivoire and Senegal reveal a primary issue with the economic transformation variable. Although the case studies make evident that the Côte d’Ivoire experienced a more structural economic change during the colonial period than Senegal, the Côte d’Ivoire received a lower score in the coding for economic transformation. I suspect that this is because Senegal received greater levels of investment in their groundnut industry, though these investments did not contribute to the development of a wage-labor system or the formal economy. It is possible that the positive relationship between economic transformation and informal economy size observed in the regression analyses stems from this aspect of the coding of the variable. Ultimately, the regression analysis and case studies provide tentative evidence that suggests that the interaction between economic transformation and post-colonial state legitimacy better explains variation in informal economy size than other independent variables. Though the explanatory power of the interaction term not robust, the dual analyses unequivocally highlight that both colonialism and legitimacy are central components in the evolution of informal economies around the world.

There are several limitations to this study, most crucially, limited data availability has restricted the scope of this analysis to select states in select years, greatly restricting the confidence that can be placed in these results. Similarly, I discovered during the process-tracing
analysis that economic transformation might be a particularly imperfect variable to measure the concept described in my theoretical equation. Unfortunately, I did not have the time to re-evaluate my regression with data on economic transformation that more accurately represents Mkandawire’s (2016) distinction between labor reserve and cash crop colonies. Ideally, I would conduct more extensive research on the possibility of the existence of thresholds or nonlinearities in the relationship between economic transformation and informality, and perhaps devise my own measure of the extent to which economic dualism occurred in each of the colonies. Additionally, I did not have the time or resources to gather primary source material or conduct interviews in each of the cases. Though I attempted to use a wide array of literature, there is often inherent bias in using secondary sources. In particular, I regret the inability to do more ethnographic research with informal workers. This study has illustrated that within the ambiguities of the informal economy, many conceptions of the impetus of the informal economy, its make-up, and its rationale, are misguided. More time and resources would have afforded me the opportunity to better highlight how informal workers themselves conceptualize economic informality.

Throughout the course of researching for this project, I desired, but did not have the opportunity, to study the relationship between neo-colonialism and economic informality. It is possible that the sustained relationships of dependency and the institutions that emerge from this later iteration of colonialism also effect economic informality in a manner similar to the period of colonialism from the early 1800s to the 1970s. Examples of specific points of study include the devaluation of the West African Franc in the 1990s, structural adjustment policies, neo-liberal reforms including trade liberalization, deregulation, and privatization, and the perpetuation of the resource curse. Further research could thus update the work of this thesis by investigating whether post-colonial global power dynamics contribute to sustaining the marginalization of the world’s informal workers.

Despite these limitations the implications of the findings in this thesis are extensive. Foremost, this thesis extends the study conducted by Englebert (2000b) to confirm that
post-colonial state legitimacy effects not only economic growth but economic informality. It also extends the analysis of Acemoglu et al. (2001), finding evidence that variation in colonial institutions continues to influence variation in informal economy size as well as economic growth. Lastly, the study illuminates the impotence of several strategies around the world in reducing informality, demonstrating the necessity of restructuring programs designed to reduce economic informality for there to be any hope of achieving success.

This fault in current formalization strategies is especially pertinent following the 2020 CORVID-19 pandemic, which drew considerable attention to the precarity of informal workers’ livelihoods, and the failures of states to accommodate informal workers in times of crisis. Street vendors in Dakar, as well as millions of informal workers around the world, completely lost their economic livelihoods during the pandemic. Few informal workers have adequate savings to support themselves through periods without income. Moreover, informal workers are largely incapable taking in particular protective measures like social distancing. In India, for example, a sudden 21 day shutdown left millions of migrant workers stranded in the streets (Abi-Habib and Yasir, 2020). Many informal workers were forced to walk hundreds of kilometers from the cities back to their rural homes. In Peru, thousands of informal workers have been detained for not “sheltering in place” even though many of them do not have indoor spaces to shelter in (Semple and Kitroeff, 2020). In Lagos, some informal workers expressed a greater fear of starving than catching the virus (Busari and Salaudeen, 2020). In locations all around the world, informality not only rendered people particularly vulnerable to catching the virus, but undermined their capacity to seek medical care, and all but eliminated their basic livelihoods.

While it is far too late in the course of history to avoid the irreparable damage caused by colonization in former colonies, it is likewise irresponsible of the academic and public policy communities to move forward with strategies for formalization as if states were a blank slate that never experienced colonialism. Many of these strategies include hyper-capitalist approaches like microfinance institutions and other efforts to boost entrepreneurship, which
are not sensitive to the fact that informal economies are remnants of pre-colonial and even pre-capitalist systems, and are thus unlikely to be responsive to capitalist reforms. Moving forward, it is imperative that policy makers reject the narrative that conflates economic informality with underdevelopment, and adopt a new paradigm that views economic informality as an alternative, but not underdeveloped, economic system.

Further efforts to combat informalisation should be sensitive to pre-colonial identities and institutions. For example, one solution in West Africa might entail promoting community-based co-operative enterprises, which are predicated on shared resources, skills, investments, and profits, and are therefore more closely aligned with many traditional values in West African communities than proprietary enterprises. In this instance, a collectivist business model provides a compelling alternative to an individualist business model because it is more in-keeping with pre-colonial institutions while still functioning in the contemporary formal capitalist economic system. It is critical that further research also investigates pre-colonial institutions and identities in other regions around the world in order to find other solutions to economic informality that similarly integrate pre-colonial institutions into a post-colonial capitalist environment.
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