Review Article

A Critical Discussion of I.L.O. Report on Employment in Kenya

by

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INTRODUCTION

The recent I.L.O. Report on Employment in Kenya [1] has drawn considerable informal acclaim from a variety of sources including officials of the Kenya Government and of a number of donor agencies. This acclaim is unquestionably deserved, for the I.L.O. mission and its chiefs, Professors Hans Singer and Richard Jolly, accomplished, in just a few months, the seemingly impossible task of writing a highly readable report analysing problems in Kenya in terms and at a level of sophistication acceptable not only to the academic community but to donors and to the Government of Kenya as well.

The purpose of this paper is to sound a discordant note and, I hope, a timely one. As this paper is being written, the Government of Kenya is in the process of concluding a lengthy and thoughtful analysis of the I.L.O. Report and of formulating a sessional paper on employment which provides not only an official response to the report but outlines the Government of Kenya's policies toward unemployment as well. Donor agencies, having adopted the report as near gospel on a number of Kenya's problems, anxiously await the sessional paper and positive action on the part of the Government which may generate some aid business and, not incidentally, contribute to corrective reforms.

Under the circumstances, a discordant note is appropriate if for no other reason than to dispel the illusions that the problem of unemployment in Kenya is essentially understood, that the analysis in the I.L.O. Report is entirely correct and that the proposed strategy can be implemented.

II. IDENTIFYING THE PROBLEM

One fact of the I.L.O. Report on Kenya which will raise eyebrows, if not generate controversy, is that the report focusses on poverty rather than unemployment and underemployment as these terms are normally understood.

At the outset, and rather magnificiently, the report informs the reader that greater emphasis will be placed upon the problem of the people who earn

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low incomes from their work "because ultimately this is the basic and most pervading issue."[1] Unfortunately, no other reason for making this choice of emphasis is provided in a report which is supposed to focus upon unemployment per se. Presumably, the reader is expected to understand that the report ought to deal with the "basic and pervading issue" which in Kenya, a lesser developed country, is indeed poverty. Unfortunately, this choice leaves a vacuum: a comprehensive report which focusses upon unemployment and the functioning of labour markets in Kenya, somewhat lesser is ues, has yet to be written.[2]

One does not wish to be unfair or unreasonably contentious on this matter. Unemployment cannot be discussed without also discussing poverty; the issue is one of emphasis. The disagreement here is that the I.L.O. mission chose to emphasize the latter and not the former.

Be all of this as it may, if one sets aside the criticism that the report does not deal with the right set of problems and accepts the report on its own terms, one finds a document which is unique and imaginative in both its analysis and in the comprehensive development strategy which it proposes. However, it will be argued here that the qualities of uniqueness and imagination are somewhat misplaced in the analysis by an emphasis on issues which are peripheral. In the strategy which is proposed, these qualities were not tempered by an appeal to empirical reality.

III. ANALYSIS OF THE PROBLEM

Having made a choice to write a report about poverty, the mission chiefs made the second and related choice that poverty, unemployment and the problem of frustrated aspirations among school leavers can be understood in the context of a discussion of the distribution of income and wealth. This then, is what the I.L.O. report is about; it is about income distribution and equity and the casual relationship of distribution and equity to poverty and unemployment.

The report identifies several different groups of people who are suffering from "insufficient incomes" and who are, consequently, the focus of attention. These groups are those who live in households, the members of which earn less than £120 per year. They are:

(*a*) workers employed on holdings which are too small and/or who have insufficient access to other inputs including basic social services. This is the most important group.

(*b*) urban workers in both the informal and formal sectors who earn very low incomes, often for very long hours of work.

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[1]Having made the choice to emphasize the problem of "insufficient incomes", the report equivocates by calling this problem an "employment problem" thus retaining, by means of an arbitrary definition, the pretense of dealing primarily with employment and unemployment.

[2]The bare-bones analytical framework of such a report exists in the work of Michael Todoro and James Tobin [3,4]. These bare-bones models would have to be flashed out by a sociological analysis of the mechanism by which traditional labour roles and institutions are transformed into those which are modern.

(*c*) the outright unemployed.

(*d*) school leavers with frustrated aspirations.

(*e*) people living in drought prone areas, particularly nomadic herdsmen.

The report begins its analysis by raising the question of why, in spite of rapid growth, unemployment and income inequality continue; in fact, may even be increasing. By raising the question in this way, the report implies that growth itself, except under special circumstances, could normally be expected to eliminate or at least reduce unemployment and inequality. This is a very important implication and one to which I shall return below.

The special circumstances which have exacerbated, if not caused Kenya's employment problems, in spite of rapid growth, are found to reside in a pattern of development initiated during the colonial period. This was a pattern which resulted from an unenlightened, though effective, policy on the part of the colonial authorities which had as its objective the creation of an economy and society where income, status, wealth and power depended upon race.

The instruments used to achieve this end were several. First, the European community laid claim to a very large proportion of the best land- through the creation of scheduled areas in which Africans were prohibited from land ownership. African land ownership was confined to Native Reserves; the acquisition of land by Asians was made difficult.

Secondly, separate school and training systems were developed for each race. These systems were such as to create and reinforce an occupational structure which generally assigned labourers, Asian to roles as commercial operators and skilled Africans to the role of unskilled or semi-skilled craftmen and artisans, and Europeans to roles as technicians, engineers, managers and administrators.

Finally, the colonial administration further reinforced the privileged position of Europeans by providing them with favoured access to transportation and marketing facilities and by prohibiting Africans from growing cash crops.

According to the report, the increasing affluence of a tiny but growing European Community provided Kenya with an engine for growth by generating demand for increased government services and by creating a market of sufficient size to justify the establishment of some small industries.

The type of growth generated by Europeans at the upper end of income distribution had a number of characteristics which figure prominently in the report. It was a type of growth which generated imports and capital intensive production for a European high income market. African participation on the supply side of this market was limited; on the demand side, African participation was very nearly non-existent.

The pattern of demand of Africans at the lower end of income distribution promoted the development of industries which produced goods which people with lower incomes could afford. These industries tended to be labour intensive and very often illegal, being unable to conform with standards established for the European, high income sector of the economy.

The report labels the high income sector as "formal" in contrast to the low income African sector which is called "informal". The use of the terms "formal" and "informal" in the report derive from a desire to avoid the "modern"/"traditional" dichotomy and to make explicit the status of the low income sector of the economy, which is neither given recognition in official statistics, nor, as indicated above, regarded as entirely legal.

At independence, economic growth was the country's first order of business and achievements have been remarkable. Between 1964 and 1970, GDP increased at a rate in excess of 6-1/2 per cent per year and per capita income by about 3-1/2 per cent. In order to accomplish this, the country had to rely heavily upon foreign manpower and capital.

The country's second order of business was the dismantling of the racial structure of privilege. This involved a number of separated activities including a reform of the school system, a redistribution of land and the transfer of economic and political control of the country into the hands of Africans. By the time the report was written, much of this programme had been accomplished, though with mixed results and not without difficulties in some areas.

For example, while 2.3 million acres of land were transferred to African ownership, over one million of these acres went to African individuals in farms averaging 800 acres in size. Also Africanization has posed something of a problem with respect to small commercial enterprises which are owned by non-citizen Asians.

According to the report, the benefits of economic growth and Africanization have not been particularly well distributed. Relatively few have been able to occupy jobs vacated by non-citizens and access to land remains highly restricted. Formal sector employment has grown at a rate of only 2 percent per year since Independence, while the increase in outputs from the schools has been explosive in response to the removal of racial restrictions to access to formal sector employment and because of high incomes in the formal sector.

The report finds these recent developments to have as their common cause the fact that post independence development has been a linear extrapolation of the pre-independence dual economy; all that has happened is that the European elite has been replaced by an African elite of large farm owners, politicians, civil servants and industrialists who form a community of interest with foreign owned firms. The structure of incomes which produces the cleavage between the formal and informal sectors remains and shows every sign of becoming more deeply entrenched. This structure of incomes provides a structure of incentives which increases the demand for education at the same time that it restricts the number of jobs which will become available. It is an income structure which promotes the growth of imports, the growth of the formal capital intensive sector and the growth of Nairobi at the expense of the informal sector and of the periphery.

The report's discussion on the emergence and growth of inequality and the relationship of this inequality to economic structure is a brilliant performance and one is tempted to join the donor agencies in their applause. The major heroes are the poor people of the informal sector who do every thing right (using appropriate technologies to produce appropriate goods) and the villains are the departed colonialists, the new African elite, the foreign owned firms and, finally, private enterprise itself.

The value of this analysis is that it underscores the relationship of the distribution of income and wealth to the development of the educational system and to the structure of production. The analysis also provides an attestation to the durability of entrenched systems and structures. The people who man a country's institutions may change, but the institutions and their major characteristics do not.

As appealing and as attractive as this analysis is, it incorporates a model formulated for Kenya as a special case and lacks the generality which would enable it to explain the genre of problems which Kenya shares with most developing countries. It would be difficult to accept the argument that colonial racist policies, foreign firms and private enterprise so shaped the economic structure as to be the major cause of poverty, of the income inequalities and unemployment which underdeveloped countries experience in the modern world.

One would have expected the mission to acknowledge that poverty is the ubiquitous condition which is altered by growth and that inequality is, inevitably, created in the process.[3] Also, one would have expected the mission to examine the proposition that the condition of growth is essentially a condition of imbalance which creates unemployment, a problem which will continue until the traditional sector is completely transformed through modernization.[4]

All of this is to suggest that there is a more fundamental process at work than that which is discussed or at least emphasized in the report. It can be argued that the report neglected these fundamental processes and over-emphasized factors which aggravated the problems with which we are concerned.

However, these factors are indeed aggravating and nothing written here should be construed as indicating that they are not. In emphasizing these factors, the report does at least underscore that the economic structure of growth can make a difference of unknown dimensions; some growth paths can be more labour absorbing and will generate less suffering than others. With this we can all concur.

What we cannot concur with is an analysis which, in its preoccupation with fairness, neglects the process described above and, also, fails to focus upon such issues as productivity, the adverse impact of labour unions on employment and the individuals' search for accommodation in different social systems and multiple and high complex labour markets.

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[3]The following is still worth reading on the subject of the relationship of growth to income inequality [2].

[4]This is a tentative conclusion reached by James Tobin [3].

IV. THE STRATEGY

The strategy spelled out in the report is that which attempts to alter the income distribution in the interests not only of fairness but of achieving a more labour absorbing growth path and relieving the frustration of school-leavers by providing a better structure of incentives. The major mechanism by which these things are to be accomplished is what the report calls a "redistribution from growth strategy". To summarize, this strategy calls for a continuation of the country's rapid rate of growth of about 7 per cent per year for GDP, 10 per cent per year for manufacturing and an increase in the rate of growth for agriculture of 6 per cent per year. A sustained high growth rate is essential in order to generate the resources which are required to meet the targets which the strategy is designed to achieve.

The second element of the strategy involves the specification of household minimum income targets for both rural and urban areas for the last year of the new Plan period, 1978 and for 1985. The report suggests that these targets should be shs. 120 and shs. 180 per month for rural households for 1978 and 1985 respectively. The corresponding minimum household income targets for urban areas shs. 200 and shs. 250 respectively.

The third element of the strategy calls for the confiscation of all increments of income earned by the richest one per cent who earn 10 per cent of total income and investing these resources in projects and programmes which create permanent increases in income for the poorest 30 per cent who also earn 10 percent of total income.

A major element of this strategy is a wages and salaries policy which will freeze all wages at £700 per year and above. Wages below £700 will be permitted to increase by a maximum of 3 percent per year with the proviso that the actual rate of increase will be inversely related to absolute level of the wage or salary under consideration.

According to this strategy, the income of the lowest third of the population can be doubled in about seven years if the capital/output ratio associated with special investments for the poor is unity. If it is two, doubling takes 9 years and, if three, ten and-a-half years. There are a number of other special assumptions made with respect to the strategy. In my mind the most crucial of these assumptions are made explicit in a technical paper in the report. They include:

(*a*) that there is a special kind of capital which creates income for only the poor.

(*b*) there is no investment incentives problem. The confiscation of increments of income from the top one per cent does not affect "normal" investment.

(*c*) that instruments exist which can, in fact, confiscate all increments of income of the rich.

The elements of this overall strategy can be criticized because both these explicit assumptions and some implicit assumptions as well depart so far from what is feasible and what is real as to jeopardise the arguments which they support.

To be specific, it is quite unlikely that a substantial number of investments can be found which benefit only the poorest. In fact, it is entirely possible that investments which benefit the poor most in absolute terms, provide substantial benefits for those in higher income groups as well.

In its analysis of problems, the report emphasizes that the demand pattern of the higher income groups provided the incentives for investments in the formal sector. It is unrealistic and contradictory to assume, as the report does, that investments in this sector will continue unabated without support on the demand side.

It is very nearly inconceivable that means can be found which will, first, confiscate and then transfer to an investment fund for the poor, all increments of income of the richest one per cent. This can certainly not be accomplished by means of the wages and salaries policy which is suggested. "Paper" promotions and changes in job descriptions provide the most obvious means for getting around such a policy. Somewhat more subtle means can be found by which the source of income can be shifted to interest, profits, rents and payments in equity.

Finally, it is entirely possible that there will be a very few investments which will create permanent increases in income for a large proportion of the poorest people in the population. A large number of the poorest are illiterate, they are past their physical prime, and they are often diseased.[5] They are often nomadic herdsmen in drought prone areas. For a large number of the poorest, who are culturally locked into particular ways to doing things, outright and continuous transfers of income will be required in order to bring them up to a minimum level of living.

Given the amount of uncertainty about the assumptions which are necessary if the redistribution from growth strategy is to work, there must also be considerable uncertainty about when the targets of this strategy can be achieved. One can accept that the rich and those who have benefitted most from growth should bear a very large share of the burden for financing projects aimed at improving the welfare of the lowest income groups without accepting the specificity of the proposals in the report.

The report recognizes the rural access to amenities of all kinds, schools, water supplies, health clinics and roads may contribute more to improving the welfare of the poorest people than any other kind of investment and the report therefore proposes the establishment of concrete tragets which are aimed at providing all Kenyians with minimum access to these facilities. For example, the report suggests the establishment of targets such as the provision of a source of clean water or of health facilities within a specified distance from every house. The report also suggests that district targets be established for admission to secondary schools in order to counter the inferior education which children often receive in poorer districts.

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[5]Therefore it may make sense to channel investments into youth and relatively young people of poverty striken areas because of the lower expected lifetime returns to older people not only for actuarial reasons but also because older people are more difficult to help and to change. However, the implementation of such a youth policy may not be consistent with the attainment of the proposed minimum household income target.

To achieve the more concrete targets would appear to be a more feasible proposition than the achievement of minimum income targets stated in shillings per month and the report acknowledges as much. However, as attractive as these more concrete targets are, not the only criteria which will apply in determining the location of investments in amenities. Since all social infrastructural investments provide complements for each other as well as investments in directly productive activities, it would be unwise to ignore the fact that the geographic concentration of investments in services may provide a higher return for these investments than if the services were dispersed. There is a trade off between the geographic dispersion of investments and geographic concentration and the trade-off often reduces to that of a trade-off between growth and equality in the distribution of welfare.

This is a subject which again leads us into the realm of unknown magnitudes and as a consequence, a degree of skepticism is warranted toward the specification of concrete targets using minimum access criteria alone.

If the redistribution from growth strategy is questionable, most of the proposals in the report which provide added thrust in direction of greater equality are not. Together these proposals add up to a major programme of reform.

By far the most important proposals in the report, from the points of view of income equality, employment and the alleviation of poverty, are those which call for agricultural intensification and in that context, a redistribution of land. The recommendations calling for the imposition of a ceiling on individual land holdings, the imposition of land tax and for Government to act as a willing buyer for any large farm in a high potential area would if they are accepted and implemented, represent a substantial move toward the solution of most of the problems with which the report is concerned.

The recommendations with respect to fiscal policy are similarly far-reaching; they have as their objectives improving of the revenue potential and the progressivity of the tax system, improving resource allocation and removing the bias against exports. These recommendations include the introduction of a unified tariff structure and of a progressive sales tax on luxury type goods. The unified tariff structure would, by introducing a tax on capital goods, alter factor prices in a desirable fashion. By reducing tariffs for highly protected industries, it would tend to make Kenya's industries more competitive.

By far the most imaginative and creative chapter in the report is that on education. This chapter cannot be read out of the context of the entire report which links problems in the educational system to inequalities in the distribution of income. The proposals on education will not be reviewed here as they are intended to solve very complex problems most of which are unique to Kenya. The major proposals are those calling for an extension of primary education to nine years (which will be terminal) and the creation of so called "second chance" institutions which will enable those who have dropped out of the system to re-enter at a later data.

A section of the report which the authors themselves regard as very important is that which is concerned with the "informal" sector. The major recommendation here is that the Government cease to harrass informal sector businessmen by attempting to enforce unnecessary and counter-productive formal sector standards. Other proposals include those which will promote small businessmen by providing them with credit, training and other services. There are also proposals the purpose of which are to divert business from the formal to informal sector, e.g., by the promotion of subcontracting.

The report also provides comprehensive sets of proposals for manufacture, commerce, population control and construction all of which contribute to the general thrust of a policy for redistributing income and altering the structure of the economy. The proposals are, by and large, commons.

The remaining questionable section of the report is that dealing with labour market policies. Consistency alone would seem to dictate that the major emphasis of this chapter would be on labour unions as institutions of the formal sector which have profound effects upon factor prices and costs, on income distribution and hence upon employment. A history of labour unions in Kenya and their evolving relationships with large foreign firms would add significantly to the discussions of the formal/informal dichotomy. A discussion of the special relationship of labour unions to the informal sector and specially their relationship to the emerging informal sector labour contractors would make intriguing reading indeed if it had been written.

This chapter of the report also contains a suggestion which, if successfully acted upon, would contribute more to poverty and suffering in Kenya than any other conceivable development. This is the suggestion that labour unions should organize rural workers in order to protect their interests and achieve more equality in the rural sector. This is a proposal appropriate for a country in another stage of development; it is not appropriate for Kenya.

SUMMARY

The purpose of this paper was to sound a discordant note in the chorus of acclaim with which the I.L.O. Report on Employment in Kenya has been received. My motivation was to disabuse over eager readers of the report of any illusion that the report contained a comprehensive discussion of the subject of unemployment in Kenya. The paper has argued that:

(*a*) the purpose of the report was to emphasize the problems of poverty and not unemployment as such. The report acknowledges as much.

(*b*) the analysis in the report begins with an unexamined presumption that growth itself is not a cause of unemployment and income inequality. In effect, the report presumed away the most important and intriguing question and concentrated upon those factors which a aggravate problems rather than create them in the first instance.

(*c*) available knowledge does not justify the degree of certainty and specificity in the proposed redistribution from growth strategy. General guidelines are more appropriate in the absence of such certainty and knowledge.

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