INCOMES POLICY FOR EAST AFRICA WITH SPECIAL REFERENCE TO UGANDA

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This is to certify that the

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ABSTRACT

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By

Asefa Teferri

The Unemployment Problem

Since the 1950's, rising unemployment has become a major problem in Uganda or East Africa in general. Growth in non-agricultural output, fostered primarily through a strategy of import-substituting industrialization, failed to generate significant employment opportunities. Recorded employment stagnated or, at times, declined. When this dismal record is combined with a rapid growth in population (in the range of 3 to 3.5 percent) and labor force, the resultant unemployment gap assumes significant proportions. Moreover, the neglect of the agricultural sector as a major area of concern in planning for development and the consequent migration of school-leavers and unskilled youth into urban areas has led to an urban labor force and unemployment growing at a rate much faster than for the economy as a whole. Given prevailing conditions, the prospect is that the unemployment problem will be an even more significant issue in the coming decades with implications having economic, social and political dimensions. The dissertation is, therefore, based on the general premise that reappraisal of economic development objectives, priorities and policies is essential to chart a more stable development path for the Ugandan or East African economy.

Asefa Teferri

An Analysis of the Ugandan Data: Major Findings

The Ugandan data over the period mid-1950 to mid-1960, supplemented by Kenyan and/or Tanzanian studies or data necessitated by some gaps in Ugandan data, was used to quantitatively estimate the trends in the magnitude and rate of growth of demand, supply and unemployment of labor. Population growth (as an index of labor force growth) and changes in recorded employment in some major Ugandan towns are used for a rough estimate of the level and rate of growth of urban unemployment. The findings indicate that urban labor force and unemployment have grown much faster than for the economy as a whole.

An analysis of the behavior of wages over the same period revealed that average money and real wages of Africans in the economy as a whole rose by 15 and 10 percent respectively. The rates of growth in the public sector are found to be higher than in the private sector. While both unskilled wages and salaries have grown over the period, it was a much faster rate of growth in the former that accounted for a significant proportion of the rise in average wages. Moreover, this growth in wages and salaries is much more than the respective productivities would permit. Given a stagnant agricultural income, the rural-urban differential for comparable labor has widened significantly. These findings are contrary to what one would expect in a situation of rapidly growing unemployment -- namely, declining wages and rural-urban income differentials. Hence, the major proposition advanced and discussed in the dissertation as a basis for incomes policy appropriate for Uganda or East Africa is that the government itself, as the dominant employer and through the statutory determination of minimum wages, has been the cause of the rising average wages, rural-urban income differentials and unemployment.

Asefa Teferri

A Comprehensive Incomes Policy

The dissertation recognizes ad-hoc policies already tested (e.g., tripartitite agreements to expand urban employment in return for acceptance of wage freezes by unions) or which can be introduced (e.g., wage subsidy) to generate urban employment opportunities. But these measures are shown to leave intact the prevailing factor price distortions so that while employers may appear to expand employment in response to these policies, they may also decrease employment by failing to make up for the loss made by normal attrition of the labor force. Moreover, the urban employment opportunities generated and the rural-urban income differentials not reduced by the ad-hoc measures (they might in fact rise) induces a continuing process of migrants into urban centers so that the net result may continue to be that of rising unemployment.

Consequently, the dissertation attempts to provide a comprehensive incomes policy which will include wage restraint and the elimination of tax exemptions and subsidies traditionally provided to imports of capital goods, both of which will help to restore normal factor price ratios and expand urban employment opportunities; encouragement of labor intensive peasant farms as opposed to mechanized farms attempted in Uganda during the 1960's which, to be successful, requires the provision of higher prices and incomes farmers actually receive. The latter will require elimination of export taxes and Marketing Board surpluses. If this is difficult because of the need for revenue, subsidies for inputs of rural labor and land (which is complementary to labor) are suggested as appropriate alternatives.

The need for some, if not all, of these policies must have been obvious for some time. A brief discussion of the process of nation building in Uganda during the 1960's is provided to show that over-riding political considerations played a significant role in the perpetuation of an abnormal wage-employment relationship and inappropriate farm organization policies. Unless the current military regime succeeds in establishing a stable framework of internal political order, the prospects are for the implementation of incomes policies, as unpopular as they are with the already employed labor force, to continue to be postponed.

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CHAPTER I

INTRODUCTION

Unlike the African countries of Zambia, Zaire, and South Africa, dominated as they are by the exploitation of mineral resources, the three East African countries of Kenya, Tanzania and Uganda are primarily dependent on the development of the agricultural sector to support and develop their modern sector. Except perhaps for Kenya, where the predominance of the European and Asian community accounted for some degree of industrialization, the non-agricultural sector played a relatively minor role in its contribution to national output, employment and export base. At the time of independence in the early 1960's, the structure of the Ugandan economy was such that 90 percent of the total population were engaged in agriculture, with over 60 percent of its GDP originating in agriculture. Roughly 10 and 30 percent respectively came from secondary services and industries. Over 90 percent of all exports were agricultural products. The contribution of secondary industry in Tanzania was slightly less than in Uganda. Moreover, the relative position of secondary industry as a proportion of GDP had remained more or less constant throughout the 1950's and into the period of independence in the early 1960's.

The decade of the 1950's saw the proliferation of concern about the structure and growth of the economies of the underdeveloped regions of the world. These concerns found expression on the theoretical as well as political level. Early theories of development built models of economic growth on the basis of the historical experiences of the now developed nations -- namely, the transformation of economies such as Uganda and Kenya from predominantly agricultural to predominantly industrial. These models generally envisaged the role of the agricultural sector as the supplier of capital for industrial investment and the supplier of labor for industrial employment. The rapid growth of national political parties in the 1950's, culminating in independence in the early 1960's, provided the circumstance in which the industrialization theories were incorporated into national development plans.

The strategy of developing import-substituting industries was the dominant characteristic of planning strategy throughout East Africa, with each country resorting to a protection of its domestic market from external competition arising within the region and abroad. The policy of "industrial fundamentalism" was perceived as a process by which various goals could be achieved, such as rapid increase in per capita income, a more equitable distribution of income, and industrial diversification. While these goals did not preclude growth in agricultural output, this growth was perceived as a means of extracting surplus resources, capital and labor, to achieve the objective of rapid industrialization and transformation of the economic structure.

The policy of imposed industrialization through imports of capital goods required certain governmental policies, namely low import duties, easy availability of foreign exchange, low interest rates on domestic credits, reliance on long term, low interest, and foreign loans. These policies would have the effect of distorting the relative prices of productive factors from what they would have been, given the prevailing resources available in East Africa, such as shortage of capital and abundance of unskilled labor.

Moreover, colonial determination of wages on the basis of non-market criteria, primarily in terms of poverty datum line criterion, was intensified during the decade of political independence when planned and deliberate improvement in the relative earnings of workers vis-a-vis investors and farmers became a major goal of economic development. The effect of such a policy was to intensify the distortion of relative factor prices as well as the relative earnings of urban and rural populations.

The above strategy of development and related policy measures must have made obvious that the generation of employment was not a primary and major objective of development in East Africa. This was despite the fact that there were unmistakable evidences of emerging excess supply or unemployment of labor as early as the mid-1950's and growing at an alarming rate throughout the 1960's. The apparent paradox in decision-making and the setting of priorities was not so much because of inherent unwillingness to create employment opportunities, but due to the early beliefs of development planners that the process of industrialization could provide a substantial growth of employment opportunities in the modern urban sector. The basic flaw in this scenario of the development process quickly became all too evident. Despite the positive rate of growth in non-agricultural output since the middle of the 1950's, and extending for more than a decade, the rate of growth in total non-agricultural employment was either stagnant or negative.

The failure in Uganda to generate non-agricultural employment at a sufficient rate to absorb the rapidly rising supply of labor provides the central purpose of our dissertation. The inapplicability of the Keynesian model of the cause of unemployment, as well as the two-sector models which envisage the non-agricultural sector absorbing labor at a constant wage rate, suggests that the East African countries, and countries with similar problems of unemployment, urgently require a reorientation of planning strategies and policies of social and political problems of mounting unemployment are to be avoided.

The key to the generation of adequate employment in the urban sector is the elimination of factor price distortions which prevent development from occurring that is labor-intensive rather than capital-intensive. In particular, the practice of establishing urban minimum wages, independent of conditions of demand and supply in the labor market, independent of living standards in the traditional sector, and independent of considering their effects on the wage structure as a whole, must be replaced by realistic and pragmatic wage policies consistent with the requirements of overall development and the generation of employment.

The government of Uganda, unlike many of the developed nations, is the dominant employer of labor, so that while private employers and labor unions may have had some independent influences on the wage structure as a whole, wage restraint for public employees will have a resultant restraining effect on the pattern of wages in the private sector. To conceal the major role of the government in past determination of the urban wage structure, and changes in this structure in the future, by blaming labor unions and/or private employers would constitute an abdication of responsibility to take effective measures to generate employment and thus avoid potential social and political instability.

Wage restraint and the avoidance of factor price distortions in the urban sector may succeed in generating employment opportunities. Yet, if past policies of neglecting agricultural development and/or maintaining a strategy of agricultural development based on labor displacing technology (e.g., tractors) continues, despite a rapid increase in population, the net effect of efforts to generate urban employment will be to increase urban unemployment through the stimulation of rural-urban flow of labor. The problem associated with the assumed relationship between urban employment and the gap between urban and rural possibilities to earn income is likely to be relatively more serious for societies like Uganda where a narrow urban base is unlikely to absorb a significant portion of the rise in rural population and labor force. Hence, policies to expand rural incomes and employment or, at least, minimize interference with the structure of price and output determination in the agricultural sector through a reassessment of the roles of marketing boards and export taxes on agricultural commodities, would be crucial for a successful elimination or control of the rapid growth in urban unemployment.

On the basis of the above outline of the basic structure of the economies of East Africa and the rapid rise in unemployment, the following analysis of "Incomes Policy for East Africa with Particular Reference to Uganda" will be divided as follows.

Chapter II will attempt to provide some evidence on the trends of demand and supply of labor in East African labor markets since the mid-1950's, utilizing historical data for the region as a whole, and supplemented by an analysis of available statistical data for Uganda.

Chapter III provides the usual theoretical argument to show what the expected trend in average wages should have been, given the growing unemployment gap, or excess supply of labor in Uganda. This normal case is contrasted with the actual trend in the structure of average wages.

Wages have risen far in excess of what would be expected if competitive market forces were allowed to operate freely, thus providing support to the hypothesis that institutional forces, primarily legislative determination of minimum wages for the unskilled and the rigid relationship maintained between the level of formal education achieved and salaries, explain the level and structure of average wages.

Chapter IV explores in some detail the functional relationship between minimum wages and average wages as well as between level of education and salaries in addition to reviewing and critically evaluating the historical circumstances and supposed "rationale" for the prevailing wage and salary policies.

Chapter V attempts to develop an approach to incomes policy in East Africa with special reference to the case of Uganda. First, a general framework of incomes policy will be developed so as to define the concept, its objectives, scope, and criteria, appropriate for the structure and problems of the Ugandan economy. Second, some specific measures to stimulate urban employment opportunities are considered. Third, policies to generate rural employment as a necessary and integral part of a national and comprehensive incomes policy are analyzed. Since the agricultural sector has been neglected by both development theory and policy, a review of policies and needed modifications in the special case of Uganda is preceded by a brief analysis of the failure to consider the impact on small-scale and labor intensive agriculture.

Chapters II to V demonstrate the failure to generate adequate employment opportunities in both the rural and urban sectors and the lack of effective policy measures to remedy the problem. In the past decade, a growing number of economists have been writing on the seriousness of the problem and its long term political repercussions. East African politicians were, likewise, conscious of them -- as will be evident from the various statements that they make and the objectives of development plans specified in recent years. The consistent failure to provide for corrective policy measures during the 1960's must therefore surprise observers from societies where rational economic policy-making is a standard assumption.

Chapter VI traces the political considerations in Uganda which have been the over-riding motives of decision-making process throughout the 1960's. While nation-building should be expected to dominate political behavior in a newly independent nation, the Ugandan case will show that failure to come up with desired economic policies at the appropriate time will, by intensifying the problems of rural poverty, unemployment, and so on, be counterproductive to the long term goal of creating a politically stable society. The failure of the Obote regime during the 1960's meant it not only failed to come to grips with the basic economic problems, but also lost its right to govern when dissatisfied military leaders used Uganda's economic problems and the related societal instability as an excuse to organize a coup d'etat in 1971. Subsequent experiences in Uganda, similar to most African countries where the military have come to power, would indicate that the economic problems are of a magnitude for a military regime with uncertain political support to effectively handle.

CHAPTER II

LABOR MARKETS IN EAST AFRICA

The relationship between demand and supply of labor in East Africa has undergone basic changes during the post-World War II period. Available evidence indicates a substantial and rapidly growing excess supply of labor, especially in the larger urban centers where both the unskilled and the educated have been migrating in significant numbers.

This chapter provides a quantitative assessment of the changes in demand and supply of labor, with particular reference to Uganda during the mid-1950's to mid-1960's. The main objective is to explore the magnitude and trend of total and urban unemployment. The omission of more recent data is partly due to the difficulty of securing statistical information comparable in scope and methodology to earlier data. However, as some cited references will indicate, the same trend has continued, even more notably, into the 1970's.

As any student of developing nations would know, available statistical data are not the most reliable or the only sources of information regarding economic trends. Qualitative historical documents also provide useful data. Accordingly, we will begin this part of our analysis by reviewing historical information on the development of the East African labor market over both the pre- and post-World War II period. This will serve two purposes: first, to provide a historical basis to the analysis, and second, to reinforce the quantitative evidence on the growing imbalance between demand and supply of labor in East Africa since the mid-1950's.

A Historical Perspective

The prevailing pattern of living in East Africa before the expansion of colonial powers into the region has been described by various writers. Herskovits,[1] for instance, has described how the economic, social and other institutions in pre-twentieth century East Africa were governed by established custom and tradition. The native population made their livelihood with subsistence production either of livestock in the case of pastoralists, or food crops in the case of settled agriculturalists. Moreover, Herskovits describes how kinship relationships and extended family ties provided a form of social security to any individual who failed to take care of his own subsistence. In short, paid employment as an institution was practically unknown.

The colonization of the region around the turn of the twentieth century introduced a series of foreign influences on traditional lifestyles and economic relationships via missionaries, private enterprises and colonial administrators. While the colonial regime abolished the slave raids of the Moslem traders,[2] private and government activities introduced new demands for African labor. Therefore, alternative methods had to be found to secure the supply of labor services. This need to maintain a proper relationship between demand and supply of African labor had dominated the history of East Africa in the twentieth century.

Initially, private and government employers could not use the payment of money to induce an adequate supply of labor, since the needs of

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[1] M. J. Herskovits, The Human Factor in Changing Africa (New York: Random House, Inc., 1962), pp. 62-72.

[2] G. St. J. Orde-Browne, The African Laborer (London, 1933), p. 13f.

the African were rather limited and could be met from subsistence activities. Hence, direct and indirect measures (taxes to be paid in money, compulsory labor) were used to force the African into paid employment.[3]

Meanwhile, the introduction of cash crops into the peasant economic structure had begun an historical trend. In Uganda, for instance, peasant production of cotton for cash sales goes back to the early 1900's, and peasant production of both coffee and cotton had become the dominant feature of the national economy by the 1930's.[4] The rapid development of peasant cash crops in East Africa, particularly in Uganda where the ownership of land had remained largely African, demonstrated not only that Africans were quick to adapt to monetary incentives, but also that economic forces pushing the peasant to seek alternative sources of income outside agriculture were historically weak, if not absent. Yet, roughly up to about World War II, public and private employers did not actively encourage the development of market incentives to induce adequate labor supply. A collusion of private interest and Colonial Administrators were, implicitly or explicitly, opposed to competitive determination of wage rates through the free interaction of the forces of demand and supply of labor.

Some governmental regulations governing minimum living and working conditions had existed even before the World War II period. But whenever

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[3]See P. G. Powesland, Economic Policy and Labour: A Study in Uganda's Economic History, East African Studies No. 10, ed. by Walter Elkan (Kampala, 1957).

[4]See Walter Elkan, The Economic Development of Uganda (London: Oxford University Press, 1961).

[5]Jack Woddis, Africa: The Roots of Revolt (New York: The Citadel Press, 1962), p. 66.

these measures were not sufficiently strong to induce the desired amount of labor services, the colonial policy preference had been for an increased application of indirect and/or direct measures such as hut tax, poll tax, and forced labor. An increase of taxes, to be paid in money, in a subsistence economy was expected to encourage labor migration in search of paid employment. Moreover, a Ugandan Native Authority Ordinance allowed compulsory labor for up to 30 days. Those unwilling to perform this work could commute their labor by paying cash.[5] Hailey says that compulsory labor "...has been defended on the ground that it is an adoption of the indigenous usage by which communal labor is used for making village roads and the like."[6] This may have been correct to the extent that a certain amount of obligatory communal labor was traditional in African society. But as Noon, among others, has pointed out: "Forced labor in Native society was well-safeguarded by customary usages and that, therefore, it never attained the degree of exploitation characteristic of the early years of European domination of the continent."[7]

In the 1920's, African hostility to the forced labor system resulted in its being made illegal in Uganda, East Africa and other British colonies in Africa. Moreover, Britain was obliged to ratify the 1930 Geneva Convention on forced labor.[8] The Convention was, however, riddled with exceptions, so that, as Woddis pointed out, "...the basis for utilizing various forms of compulsion to secure labor still remained."[9] Whatever the negative impact

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[6]Lord Hailey, An African Survey, Revised 1956 (London, 1957), p. 1362.

[7]John A. Noon, Labour Problems of Africa (University of Pennsylvania, 1944), p. 39.

[8]Woddis, op. cit., p. 65.

[9]Ibid., p. 65.

of internal and external legal constraints on the available supply of labor, it was easily compensated for by a more extensive recruitment of workers from outlying areas within Uganda or from neighboring territories.[10]

In economic analysis, the minimum supply price of labor in a country like Uganda tends to correspond to the average income of peasant farmers. At a given wage rate, other conditions remaining the same, a rise in average farm income tends to reduce the amount of labor services for paid employment. For a number of regions in Uganda, Elkan produced data to show "an inverse correspondence between the income from the sale of farm products in an area, and the proportion of its men in employment."[11] Yet despite the demonstrated difficulty of securing hired labor, unskilled wages were kept more or less rigid. In 1900, 1913, and 1943, wages in the Buganda region of Uganda were reported to have been 6/-, 9/- to 12/- and 12/- shillings, respectively, per month.

The above overview may not have resolved the appropriateness or inappropriateness of labor policies in East Africa for five decades after the initial period of colonization. It was not intended to do so. The objective was to show that private employers, government officials, and even some labor market analysts were unanimous in the view of an excess demand for labor in the area throughout this period, though they were reluctant to provide market incentives to induce increased supply. In fact, Colonial Labor Department officials continued to report labor shortages, or, at least, absence of surpluses, up to about the mid-1950's. Thus, Uganda's

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[10] Elkan, op. cit., p. 19f.

[11] Walter Elkan, Migrants and Proletarians, Urban Labor in the Economic Development of Uganda (London, 1960), pp. 35-37.

Labor Department reported that in 1947, "Literal unemployment does not exist and any able-bodied African can almost certainly obtain some form of manual labor at an average wage if he looks for it."[12]

Similarly, the Kenyan Labor Department reported that in 1948, "There is little or no unemployment in Kenya in any accepted sense, i.e., involuntary. There is work for all who seek it."[13] In 1951, the same Department reported that "The continued expansion of industry and agricultural concerns has made unprecedented demands upon the labor force of the colony during 1951. It was particularly in the unskilled category of employees that the demand outstripped the supply and many employers reported shortages particularly those with considerable development programs."[14] The Tanganyikan (now Tanzanian) Department of Labor, in a relatively optimistic report, stated that in 1948, "There has been no lessening of the demand for unskilled labor, but workers have come forward in greater numbers than was expected."[15]

Up to about the mid-1950's, the same attitude that work was available "for all who seek it" continued to be reported. Such optimistic reports may have been made merely to satisfy the concern of the British Parliament which, it may be noted, had passed an Act in 1940 affirming its responsibility to uplift the welfare of the colonial peoples.[16] Moreover,

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[12] Uganda Protectorate, Labor Department Annual Report, 1947, p. 5.

[13] Colony and Protectorate of Kenya, Labor Department Annual Report, 1948, p. 6.

[14] *Op. cit.*, p. 5.

[15] Tanganyika Government, Labor Department Annual Report, 1948, p. 63.

[16] Great Britain, Statement of Policy on Colonial Development and Welfare, Cmd. 6175, 1940.

the assessments of Colonial Labor Officials may have failed to observe fully and in time the underlying structural shifts which were occurring in the process of the urban migration of the African population and which were transforming the pre-war labor market condition of excess demand into that of post-war excess supply.[17] The possibility of such a lag between official reporting and the actual trend was apparent from the abrupt emergence of concern over increasing employment which had actually been occurring since the mid-1950's.

Instead of its previous concern over labor shortages, the 1959 Labor Department Report from Kenya stated, "During 1956, a radical change took place in the labor supply position and by the end of the year surpluses of labor were being reported from almost all urban and rural areas."[18]

Similarly, the Tanganyikan Reports of 1956 and 1957 expressed concern over the emerging excess supply of labor. For instance: "In contrast to previous years a notable development in the territorial labor situation has been the increasing unemployment problem experienced in the larger urban areas and in particular in Dar-es-Salaam municipality."[19]

As with Kenya and Tanganyika, the Ugandan Labor Department Reports of the period indicate a growing problem of unemployment, particularly in the towns of Kampala, Jinga, and Masaka. A 1958 report claimed: "There was a surplus of unskilled labor, semi-skilled workers, domestic, clerical, and other non-manual workers in the main towns."[20]

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[17] See Derek Byerlee, Research on Migration in Africa: Past, Present and Future, African Rural Employment Study No. 2 (East Lansing, Michigan: Department of Agricultural Economics, Michigan State University, 1972).

[18] Colony and Protectorate of Kenya, Labor Department Annual Report, 1956, p. 3.

[19] Tanganyika Government, Labor Department Annual Report, 1957, p. 3.

[20] Uganda Protectorate, Labor Department Annual Report, 1958, p. 11.

The problem of excess supply of labor, particularly in the main towns, had continued to cause mounting concern among scholars and policy-makers. Rapid population growth, educational policies, minimum wage legislation, export taxes on agricultural commodities and a whole range of urban industrial policies have been recognized as having some casual relationship with the growing problem of excess supply of labor in East Africa during the 1950's and 1960's. Yet, for reasons to be elaborated later, recognition of these interrelationships was not reflected in the actual process of decision-making in East Africa. As a participant was reported to have remarked in a recent conference held in Kenya:

> ...although the problems of unemployment, the overly academic school curriculum, etc., had been recognized for many years, the concern for the interrelationship of the issues of education, employment and rural development had only recently commanded serious attention.[21]

The Ugandan Data

Turning now to a quantitative assessment of the changes in demand and supply of labor in Uganda, data is presented for the period 1954-1966. Given the close similarities in the economic structures and labor market conditions, it is believed that the conclusions derived from an analysis of Ugandan data could broadly apply to Kenya and Tanzania as well. However, comparative data from the latter will be presented whenever they are convenient and/or illuminating.

The objective, it should be pointed out, is not to provide a precise estimate of the magnitude of excess supply of labor, for this would be

[21] James R. Sheffield (ed.), Education, Employment and Rural Development, Report of the Kericho (Kenya) Conference, 25th September to 1st October, 1966 (Nairobi: East African Publishing House, 1967), p. xii.

impossible given the current state of statistical knowledge in East Africa. Rather, it is to quantify the broad order magnitude of the problem inasmuch as existing data will allow, and hence corroborate the qualitative assessment of the unemployment situation which is causing great concern among economists familiar with the area. Moreover, an empirical perception of the problem, even if imprecise, would be very useful for a meaningful or convincing evaluation of prevailing incomes or wage policies.

Statistical techniques for estimating changes in demand and supply of labor in developed countries have undergone significant growth and refinement. Much empirical research has been done to identify and analyze the independent effects of factors functionally related to the demand and supply of labor. In East Africa, comparable research has hardly begun. A more practical and useful approach to quantitatively estimate the magnitude and changes in demand and supply in the latter would be to use total recorded employment to serve as an index of demand, and the trend in the size and characteristics of population as a basis for estimating the supply of labor. Such an approach is, no doubt, crude and subject to a wide margin of error. When used in conjunction with historical information presented above, however, it would be adequate to draw conclusions useful as a framework for evaluating prevailing wage or incomes policies and recommending necessary changes in these policies.

The Demand for Labor

Table II-1 shows the trend in total recorded employment of Uganda over the period 1954-1966. It reveals that over the entire period the level of total employment has remained more or less stagnant. Total employment

Table II-1

Wage Employment in Uganda: 1954-1966

Year	Number of Employees (thousands)	Index of Wage Employment (1957 = 100)
1954	236	98
1955	237	99
1956	237	98
1957	241	100
1958	243	101
1959	240	99
1960	245	101
1961	236	98
1962	237	96
1963	222	92
1964	225	93
1965	242	101
1966	246	102

Source: Uganda Government, Statistical Abstract (Entebbe: Government Printer, various issues).

increased gradually during 1954-1958, reaching in 1958 a level about 3 percent above that of 1954. There was a slight decline in 1959, which returned in 1960 to a slightly higher level than in 1958. Over the next three years, however, a sharp decline occurred, reaching its lowest level in 1963, almost 6 percent below the 1954 level. Since 1964, total employment indicated an apparent recovery, but the 1966 level was still only some 4 percent above that of 1954. In short, total employment over the entire period analyzed had stagnated, showing only minor increases or decreases. Over the same period, total employment in Kenya increased by 11 percent while that of Tanzania declined by almost 18 percent.

If, as was suggested above, the total employment figures are used as indicators of the trend in total demand for labor, it would be necessary to assume that *ex ante* and *ex post* magnitudes of employment are identical. In other words, it must be assumed that all vacancies created during a given period are and can be filled in the same period. In reality, the planned level of employment may be in excess of the actual or realized level. If this holds true, recorded employment figures would underestimate the level of demand for labor. In the context of East Africa, however, we can safely ignore the possibility of such a discrepancy between planned and actual levels of employment, since, as was indicated in the review of historical information, and as will be evident below from an analysis of the supply side of the labor market, excess supply of labor has been and continues to be a basic characteristic of these countries.

Another problem of using total employment figures as indicators of demand for labor relates to possible inaccuracies in the reported statistical data. In Uganda, as well as in Kenya and Tanzania, the source of reported employment data has been an annual Enumeration of Employees,[22] which may have failed to include a large number of seasonally-employed persons, particularly in processing industries and other agriculturally related activities. To the extent that such errors exist, the employment figures would underestimate the real amount of demand for labor.

For instance,[23] the Enumeration data for Uganda reported a total employment figure of 35,700 persons in processing and manufacturing activities, while a Survey of Industrial Production for the same year reported 39,510 persons, even though the latter excludes enterprises employing less than ten people. Furthermore, in cotton and coffee processing industries the Enumeration reported only 7,300 persons employed while the Survey reported 17,200 persons. Such a wide margin of discrepancy appears to reflect statistical errors due to the problem of seasonal employment. The apparent increase in total employment as officially reported since 1965 indicates an upward revision of Enumeration estimates rather than real improvements in the demand for labor in Uganda.[24]

The poor quality of statistical information is one major reason why it is extremely difficult to study and analyze the performance of the East African economy. It is unlikely, however, that the errors and omissions in reported employment figures are of a magnitude and nature to significantly

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[22] Uganda Government, Ministry of Planning and Economic Development, Statistics Division, Enumeration of Employees (Entebbe, annually).

[23] E. J. Stoutjesdijk, Uganda's Manufacturing Sector: A Contribution to the Analysis of Industrialization in East Africa, East African Studies No. 29 (Nairobi: East African Publishing House, 1967), p. 25.

[24] E. J. Stoutjesdijk, ibid., p. 25f, claims that as a result of the findings from Industrial Surveys carried out in 1963 and 1964, employment data derived from Enumeration of Employees have been scaled upwards.

distort the broad conclusion revealed by the data given in Table II-2 -- that the total demand for labor in Uganda (similarly in Kenya and Tanzania) had remained more or less stagnant over the entire period 1954-1966.

What is perhaps most disturbing in the apparent stagnation of total employment is that it occurred despite a relative increase in reported monetary Gross Domestic Product and Gross Capital Formation (Table II-2). These data do not show the rate of growth in output in real terms, but when compared with the data in Table II-1, they do provide some indication that the elasticity of demand for labor with respect to output has been significantly less than unity.

Table II-3 shows the coefficients of such elasticity calculated for Uganda, Kenya and Tanzania over the period 1955-1966. The basic output-employment relationship indicated by these coefficients would not be fundamentally different if real, instead of monetary, changes in output were used. Growth in real national output would still be higher than growth in employment. In comparison to stagnation in employment shown for Uganda, real output (in terms of 1960 prices) was estimated to have grown by about 1.4 percent in 1954-1962 and 9 percent in 1962-1965.[25] Thus, whether real or monetary growth in output is the frame of reference, it is clear that one cannot lay much hope on a planned growth in national output per se to generate adequate employment opportunities in Uganda and East Africa as a whole.

Development models which were popular during the 1950's and 1960's assumed that rapid growth in non-agricultural output would successfully

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[25] R. H. Green, Tabular Appendix, Economic Development Research Paper, No. 103 (Kampala: Mekerere Institute of Social Research, not dated).

Table II-2

Uganda: Indices of Monetary GDP and Gross

Capital Formation (current values)

Year	Index of Monetary GDP (1957 = 100)	Index of Capital Formation (1957 = 100)
1954	85	94
1955	94	113
1956	95	107
1957	100	100
1958	97	96
1959	99	84
1960	102	92
1961	102	89
1962	99	87
1963	119	98
1964	137	119
1965	138	159
1966	159	151

<u>Source</u>: <u>Statistical Abstract</u>, various issues.

Table II-3

Elasticity of Demand for Labor (EdL) with Respect

to Monetary GDP: 1955-1966

Year	EdL: Uganda	EdL: Kenya	EdL: Tanzania
1955	0.04	4.0	-1.85
1956	0.00	-0.44	3.56
1957	0.21	4.70	-1.78
1958	-0.40	-2.75	0.77
1959	-0.89	0.18	0.10
1960	0.08	0.05	0.29
1961	-6.10	-4.80	-0.51
1962	0.71	-0.52	-0.63
1963	-0.75	-1.54	-1.48
1964	0.15	1.01	0.27
1965	1.21	-0.04	-1.80
1966	0.09	2.20	0.08

Note: The negative elasticities are due to a fall in employment.

Source: F. I. Ojow, Employment, Output and Labor Force Trends in East Africa, Economic Development Research Project No. 138 (Kampala: Mekerere Institute of Social Research, May, 1968), p. 10.

absorb surplus labor from the agricultural sector. Even if total employment had remained stagnant, as indicated above, structural redistribution could have brought about growth in non-agricultural employment.

The data indicated in Table II-4, however, do not show such redistribution in total employment to have taken place. The absolute and relative magnitudes of non-agricultural employment are shown to have remained more or less stagnant. In fact, if the data is to be believed, total employment in Uganda grew slightly faster than non-agricultural employment over the period 1957-1966. Thus, emphasis put on industrialization in the development strategies of East Africa had not succeeded in generating a demand for labor.

At this stage, it would be useful to consider the trend in non-agricultural employment disaggregated between public and private sectors as well as between some selected industries in Uganda. The employment data used covers only African employees. Omission of non-Africans should not distort the results of our analysis as they constitute an insignificant proportion of total employment.[26]

Table II-5 indicates that the public sector accounts for about 50 percent of total non-agricultural employment in Uganda -- a characteristic shared by East Africa as a whole and indeed most developing nations. The data also show that public non-agricultural employment over the period 1957-1966 had declined, absolutely and relatively, to that of the private sector. While public employment declined by 9 percent over that

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[26] In 1957, for instance, Asian and European employees numbered 4.5 and 9.3 thousands respectively out of a total employment of 241 thousand given in Table II-1. The corresponding figures for 1966 were 3.5, 10.6 and 2.46 thousands respectively.

Table II-4

Agricultural and Non-Agricultural Distribution of

Total African Employment: Uganda, 1957-1966

Year	Agricultural* Employment	Non-Agricultural** Employment	Index of Non-Agricultural Employment (1957 = 100)
1957	49,127	177,789	100
1958	50,637	177,762	100
1959	49,637	174,623	98
1960	52,966	175,923	99
1961	48,532	172,467	97
1962	51,418	165,355	93
1963	49,941	158,409	89
1964	51,306	161,040	90
1965	50,347	177,839	100
1966	52,206	179,667	101

*Employment in agriculture, forestry and fishing excluding employment in peasant agriculture.

**Excluding domestic employment.

Note: Since Asian and European employees are left out of Table II-4, the totals will fall short of the total employment figures given in Table II-1.

Source: Statistical Abstract, various issues.

Table II-5

Distribution of African Non-Agricultural Employment

by Type of Employer, 1957-1967

Year	Non-Agricultural		Index of Non-Agricultural Employment (1957 = 100)	
	Private	Public	Private	Public
1957	89,560	88,239	100	100
1958	86,370	90,504	96	103
1959	83,432	91,191	92	103
1960	90,547	88,376	101	100
1961	84,253	82,217	93	93
1962	82,055	83,300	91	94
1963	80,053	78,356	89	89
1964	77,159	83,881	86	95
1965	93,914	83,925	104	95
1966	98,972	80,395	110	91

Source: *Statistical Abstract*, various issues.

period, private non-agricultural employment grew by about 10 percent. If the 1965-1966 data were excluded, the relative trends in public and private non-agricultural employment would be seen to be similar. Both would indicate a fall in employment.

The data in Tables II-6(a) and II-6(b) provide a clearer picture of the trend in private non-agricultural employment, showing that while employment in manufacturing, commerce and mining industries increased over the period 1957-1966, in construction and transportation it declined. Here again, the apparent increase in the former group of industries would not show if the 1965-1966 data were excluded.

The apparent sharp increases in employment during 1965-1966 may have been due to changes in the statistical method used in reporting employment rather than any real changes in magnitude.[27] Hence we can broadly conclude that changes in non-agricultural employment -- public and private -- have not succeeded in generating a demand for labor that would indicate the rural to urban employment redistribution trends suggested by development models during the 1950's and 1960's. The same conclusion was indicated by Frank[28] with respect to most African countries.

Moreover, as the proportion of wages and salaries in total recurrent expenditure are significant in the budgets of East African countries (see Table II-7), the government sector should not be expected to show a better employment picture in the future -- at least, given the prevailing policies. Even if government policies do succeed in scaling down the

[27] See footnote 24 above.

[28] C. R. Frank, Jr., "Urban Unemployment and Economic Growth in Africa," Oxford Economic Papers, XX (July, 1968), p. 256.

Table II-6(a)

Uganda: Total African Employment in Selected Industries

Year	Misc. Manuf.	Manufacture of Food Products	Constr.	Transport and Commerce	Mining and Quarrying	Commerce
1957	17,512	7,513	35,184	10,403	5,536	9,022
1958	18,202	7,031	63,642	10,378	3,949	10,246
1959	17,240	7,071	31,778	9,677	5,136	9,918
1960	16,955	7,620	29,204	10,105	5,322	10,696
1961	17,896	7,768	28,554	9,631	5,769	11,142
1962	17,092	7,603	28,635	8,985	5,095	10,483
1963	17,177	7,424	25,819	9,606	4,853	9,663
1964	16,485	9,370	24,091	8,995	4,830	9,681
1965	18,612	8,159	31,573	9,698	6,084	9,209
1966	20,865	8,672	28,253	9,322	6,156	10,509

Source: Statistical Abstract, 1965, 1970.

Table II-6(b)

Indices (1957 = 100)

Year	Misc. Manuf.	Manufacture of Food Products	Constr.	Transport and Commerce	Mining and Quarrying	Commerce
1957	100	100	100	100	100	100
1958	103	93	104	100	71	113
1959	98	95	90	93	93	110
1960	97	101	83	97	96	119
1961	101	104	81	92	105	123
1962	97	101	81	87	93	117
1963	98	99	74	92	89	108
1964	94	125	68	87	87	108
1965	106	109	90	93	111	102
1966	119	116	80	89	111	117

Source: Same as in Table II-6(a).

Table II-7

Wages and Salaries as a Proportion of Total Government

(Local and Central) Recurrent Expenditure:

Uganda, 1960-1966

Year	1 Total Non-Recurrent Expenditure (thousand shs.)	2 Total Recurrent Expenditure (thousand shs.)	3 Wages and Salaries (thousand shs.)	3 ÷ 2* %
1960/61	115,824	622,694	232,504	37
1961/62	107,015	654,965	264,051	40
1962/63	93,644	770,307	280,533	36
1963/64	125,768	806,516	307,317	38
1964/65	211,447	896,224	366,921	41
1965/66	234,433	1,013,513	402,248	40

*The percentages would have been slightly higher if "overseas addition" to expatriate staff paid by the U.K. Government since 1962/63 were excluded.

Source: Statistical Abstract, 1965, 1970.

proportion of wage and salary expenditure, the chances of generating additional employment are not optimistic, since the public sector is already very labor intensive. But, as will be more evident below, such changes in public policy would affect private employment opportunities positively and significantly.

The Supply of Labor

In most developing nations, an analysis of the supply side of the labor market is made very difficult by a lack of systematic demographic and labor force studies. In some countries, such as Ethiopia, even a critical minimum of such data are not available. The East African states of Uganda, Kenya, and Tanzania have been relatively fortunate in this area. The colonial regime established a tradition of gathering some population data, particularly in the post-World War II period.

Censuses of population were available even for the period before the War, but these were nothing more than intelligent guesses based on the number of taxpayers, or counting people ordered to assemble in a given central area. In theory, compulsory registration of deaths and births was required of most Ugandans, as early as the 1930's. In practice, however, the system was highly ineffective, as an overwhelming proportion of the populace either did not know of the requirement's existence or did not bother to register.[29]

The establishment of the East African Statistical Department in 1947 represented the first real attempt at systematic collection and compilation

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[29] This background information and the next few paragraphs draw heavily from T. E. Smith and J. G. C. Blacker, Population Characteristics of the Commonwealth Countries of Tropical Africa (University of London: The Athlone Press, 1963).

of population data in Uganda, Kenya and Tanzania. In 1948 a complete enumeration of Africans and non-Africans in these countries was attempted. It supplemented by re-enumeration of a sample of selected areas -- to cross-check and to obtain more detailed characteristics of the population. A second census was undertaken for Tanganyika (now Tanzania) in 1957, for Uganda in 1959, and for Kenya in 1962.[30]

Since independence, no significant improvements have been made on the census data left by the colonial regime. Obviously, most of these data are by now outdated. Nevertheless, they provided a basis on which East African governments and independent researchers could estimate the trend in population during the 1960's and later. Since the two colonial censuses followed practically the same procedure, it facilitated the task of estimating intercensal changes in size and characteristics of a population, as well as future projections.

The rate of population growth in East Africa, between the two colonial census years, was assumed to have remained constant in the compilation of official population data throughout the 1960's. In Uganda, for instance, a constant rate of growth of 2.5 percent per annum was assumed, equal to the rate of growth of the African population from 4,917,555 in 1948 to 6,449,558 in 1959.[31] In fact, the Second Five Year Plan of Uganda assumed this rate to hold through 1981.[32] Most students of East Africa, however,

[30]T. E. Smith and J. G. C. Blacker, op. cit., pp. 57-60.

[31]P. J. Gormely, Some Implications of Population Growth in Uganda, Economic Development Research Project No. 97 (Kampala: Mekerere Institute of Social Research, April 4, 1966), p. 2.

[32]Uganda Government, Work for Progress, Second Five Year Development Plan, 1966-1971 (Entebbe: Government Printer, 1966).

estimate the actual rate of growth per annum to lie somewhere between 2.5 and 3.5 percent. A provisional census of population in Uganda undertaken in 1969 estimated the total population to have been about 9.5 million, which supports a rate of growth nearer to 3.5 percent between 1959 and 1969.[33]

Thus, while the colonial population census and the various census-based projections of the trend throughout the 1960's gives some idea of population growth in Uganda as well as East Africa as a whole, the actual growth rate remains unknown. The best one can do, e.g., for Uganda, is accept the officially reported population growth trend which applies a constant 2.5 percent rate of growth to the 1959 population estimate, as the minimum estimate, and that calculated on the basis of a 3.5 percent constant rate of growth as being the maximum estimate, while the actual population growth may lie somewhere in between. P. J. Gormely[34] adopted this approach in his recent attempt to calculate the size of African population in Uganda over the period 1959-2000. Table II-8 presents his estimates on the assumption of alternative constant rates of growth between 2.5 and 3.5 percent. It shows that even under the minimum constant rate of growth assumption, the population of Uganda in 1959 would double in just 28 years.

The total labor force growth rate would depend primarily on the population growth rate as well as on the labor force participation rate. The latter, in turn, depends on such factors as the age-sex composition of the population, education, income, etc., and how these factors change over

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[33] Uganda Government, Statistical Abstract, 1970 (Entebbe: Government Printer, 1970), p. 14.

[34] P. J. Gormely, *op. cit.*, Table II, p. 3.

Table II-8

Prospective African Population of Uganda under

Various Rates of Growth (millions)

Year	2.5%	2.6%	2.7%	2.8%	2.9%	3.0%	3.5%
1959	6.425	6.425	6.425	6.425	6.425	6.425	6.425
1965	7.451	7.495	7.539	7.583	7.628	7.672	7.865
1970	8.429	8.522	8.612	8.705	8.800	8.894	9.380
1975	9.537	9.689	9.840	9.993	10.153	10.311	11.031
1980	10.789	11.016	11.242	11.473	11.714	11.954	13.232
1985	12.207	12.525	12.844	13.171	13.514	13.858	15.715
1990	13.810	14.240	14.674	15.118	15.628	16.066	18.664
1995	15.624	16.191	16.765	17.359	17.988	18.626	22.167
2000	17.676	18.409	19.153	19.928	20.754	21.593	26.080
Years Needed to Double Population							
	28	27	26	25.1	24.2	23.4	20.1

Source: P. J. Gormely, *op. cit.*, Table II, p. 3.

time. Very little is known about the relative importance of each factor on the labor force participation rates in East Africa. As in most developing nations, a significant proportion of the East African population is believed to be young. Table II-9 shows that well over 50 percent of the population of the three East African countreis are estimated to lie in the 0-21 year age group. Moreover, roughly 50 percent of the total population are estimated to female.[35] Both characteristics imply a relatively low labor force participation rate. In the context of the predominantly rural and

Table II-9

Percentage Distribution of Age Groups

Age Group	Uganda (%)	Kenya (%)	Tanzania (%)
0-21	41.5	46.5	42.5
15-21	25.2	26.9	27.0
0-21	66.7	73.4	69.5

Source: F. S. Arkhurst (ed.), Africa in the Seventies and Eighties, Appendix, Table 2 (New York: Praeger Publishers, 1970).

peasant economy of East Africa, however, children and women play a relatively important role in economic activities. Women, for instance, participate actively in the production of food crops, while children may engage in activities such as picking cotton. With future increases in urbanization, education and/or family income, one would expect the behavior of the labor force to gradually approach that prevalent in the developed nations.

Beyond these general remarks, however, the quantitative estimate of

[35] See T. E. Smith and J. G. C. Blacker, *op. cit.*, p. 29.

the trend in the actual labor force in East Africa remains a difficult task to undertake. Except for Tanzania,[36] the East African nations have yet to undertake even a limited labor force survey. Nevertheless, on the basis of information derived from the Tanzanian Labor Force Survey and the 1962 Kenyan Census of Population (indicated above), some attempts could be made to provide tentative quantitative estimates of the trend in the total labor force. In what follows, an estimate of Ugandan labor force is made based on a recent study by F. I. Ojow,[37] covering all the three East African countries. The Ugandan case will suffice to draw broad conclusions applicable to the other countries as well because of the close similarity in the estimated proportion and trend of the total labor force.

The Tanzanian Labor Force Survey of 1965, referred to above, found that 37 percent of the total population (after deducting those keeping house, in school, unable to work, in prison, etc.) defined the size of the total labor force in that year. Ojow assumed the same proportion for Uganda (and Kenya) to estimate the size of the labor force before, during, and after 1965. He made three alternative estimates assuming (1) that the labor force in any one year was a constant 37 percent of the total population, (2) that while the labor force was 37 percent of the total population in 1965, it was growing at the same rate as population before and after 1965, and (3) that the average of the two alternative estimates was taken. The results of the third alternative were found to lie between those of the first two. For this reason alone a presentation of Uganda's

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[36] R. S. Ray, Labor Force Survey in Tanzania, Ministry of Economic Affairs and Development Planning, The United Republic of Tanzania (January, 1966).

[37] F. I. Ojow, *op. cit.*, Tables 1, 2 and 3, pp. 4, 5, 6.

estimated labor force is made in Table II-10, Column B, for the period 1954-1966, calculated under the third alternative assumption. Column C provides the adjusted labor force estimate on the assumption that 50 percent of the Ugandan population is female, with only 5 percent actively seeking employment. The latter percentage approximates the proportion of females in paid employment. In reality, the female participation rate may be somewhat higher. Furthermore, the population data used are government estimates which, as was indicated above, are calculated on the basis of what was at best a minimum 2.5 percent constant rate of growth.

It is therefore possible that the calculated figures for the unadjusted and adjusted labor force underestimate the actual trend. Nevertheless, a broad picture is clearly apparent -- that, over 1954-1966, the rate of growth of the labor force has been significant and perhaps approaching 100 percent or about 8 percent per annum.

The Unemployment Gap

When the total recorded employment for a given year (our indicator of the total economy's demand for labor) is subtracted from the estimate of adjusted labor force (our indicator of the total supply of labor), an estimate of the magnitude of the total excess supply of labor or the total unemployment gap is derived for the economy as a whole. Table II-11 provides the trend in the estimated gap for Uganda over the period 1954-1966. As the adjusted labor force, for reasons indicated above, may have been under-estimated, it is likely that the indicated unemployment gap is an under-estimation of the actual magnitude. Even then, the gap is shown to have increased from about half a million to well over a million over the

Table II-10

Uganda: Estimated Labor Force

Year	Population (millions) A	Estimated Labor Force (millions) B	Adjusted Labor Force (millions) C
1954	5.7	1.54	.809
1955	5.9	1.66	.872
1956	6.0	1.76	.924
1957	6.2	1.83	.960
1958	6.4	2.00	1.050
1959	6.5	2.11	1.108
1960	6.7	2.23	1.171
1961	6.8	2.33	1.223
1962	7.0	2.45	1.286
1963	7.2	2.57	1.349
1964	7.4	2.69	1.412
1965	7.6	2.81	1.470
1966	7.7	2.92	1.533

Source: F. I. Ojow, *op. cit.*, Table 1, p. 4.

Table II-11

Uganda: Estimates of Total Unemployment

Year	Adjusted Labor Force (thousands)	Employment (thousands)	Unemployment Gap (thousands)
1954	809	236	573
1955	372	237	635
1956	924	237	687
1957	960	240	720
1958	1,050	243	807
1959	1,108	240	868
1960	1,171	245	926
1961	1,223	236	987
1962	1,286	231	1,055
1963	1,349	222	1,127
1964	1,412	225	1,187
1965	1,470	242	1,228
1966	1,533	246	1,287

Source: From Tables II-1 and II-10 above.

period 1954-1966. Moreover, the gap has been consistently increasing every year of the entire period. The same general conclusion applies to both Kenya and Tanzania.

The trend in the aggregate unemployment gap for the economy as a whole, though useful in defining the overall magnitude of the problem, offers limited insight in a situation of disaggregated labor markets with distinct characteristics. In the context of East Africa, an analysis of the unemployment gap in terms of urban and rural labor markets offers a more useful approach to follow.

In the rural economy of East Africa, the supply of labor is predominantly unskilled and more or less homogeneous. Moreover, an overwhelming majority of the total labor force is rural. Hence, the conclusions of our analysis with respect to the total economy's demand and supply of labor could apply to the rural sector without significant danger of distortion. We need only recognize that rural demand for labor is subject to seasonal fluctuations and that, given rural supply of labor, the unemployment gap is likewise subject to fluctuations. It is generally recognized that excess supply in the rural sector assumes the form of hidden unemployment or underemployment, so that seasonal fluctuation of demand for labor would be reflected in seasonal fluctuation of the degree of underemployment. This is related to the fact that the rural sector is characterized largely by self-employment on a family or communal farm.

In contrast, the urban labor market is characterized by the problem of open-unemployment and, excepting self-employment in petty trade and/or small business ventures (where underemployment may be a problem), wage employment is the predominant form of making a living. Moreover, the supply of labor is far from homogeneous. There are the white collar vs. the blue-collar workers, the unskilled vs. the skilled workers and/or the educated vs. the uneducated. While applying such categories to the East African situation is not without limitation, the existence of non-homogeneous labor supply in the "modern" or urban labor market is clearly evident.

Moreover, the structure of the urban economy is not homogeneous. We have the public vs. the private sector, the large-scale vs. the small-scale enterprise, trade vs. manufacturing, export-oriented vs. internal market-oriented producers, etc. Hence, the nature of demand for labor may be different between different units of the urban economy.

These classifications of the urban labor market may not be exhaustive. Nevertheless, they do indicate that an aggregative analysis of the total economy's labor market and unemployment gap would probably lead to distortions if its conclusions are uncritically applied to the urban setting, and that an aggregative analysis of the total urban labor market could also result in misleading conclusions. Part of the problem of development economics in the past has been the tendency to treat the total and/or urban economy as if it were homogeneous and uncritically apply aggregative models developed for advanced economies.

Quantitative assessment of open-unemployment in the urban labor market in East Africa is extremely difficult both for conceptual and statistical reasons. Conceptually, there is the problem of defining the urban labor force actively seeking employment. What may be regarded as self-employed could easily become part of the labor force if the demand for workers increases significantly. Some housewives, students, etc., may be only temporarily out of the labor market because of unavailability of jobs. Such behavior responses should not be ignored in any meaningful analysis of the urban labor market in developing nations.

While recorded total urban employment may serve to indicate the extent of demand for labor (though not necessarily for a specific category of labor, e.g., school-leavers), the difficulty of measuring and defining urban open-unemployment presents a critical problem for analysis. Information from labor exchanges is highly unreliable, as most of the unemployed may be reluctant to identify themselves out of fear of deportation to rural areas.[38] Moreover, given rural to urban labor migration and the resultant problem of maintaining a representative sample, survey techniques are likely to give unreliable results. Furthermore, the lack of sophistication of questioners and respondents would present additional limitations.

Recognition of the difficulties, however, should not prevent us from having a broad picture of the magnitude and nature of urban excess labor supply. For instance, Frank[39] has suggested the utilization of urban population growth as an indicator of the growth in urban labor force. A recent Ugandan study[40] assumed an urban population growth rate of between 5.8 and 6.9 percent when projecting the urban population trend up to the year 2000. These rates may not be precisely accurate but they serve to indicate that urban population and labor force has been growing much faster

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[38] M. P. Todaro, "Income Expectations, Rural-Urban Migration and Employment in Africa," International Labor Review, Vol. 104, No. 5 (1971), pp. 4-5.

[39] C. R. Frank, Jr., *op. cit.*, p. 252.

[40] Uganda Government, Kampala-Mengo Regional Planning Study No. 1, Population and Land Requirement (Kampala, February 1965), Appendix A, Table 1.

than for the nation as a whole.

Gormely estimated that the urban population in Uganda had about doubled during 1959-1970, assuming a constant 5.8 percent annual rate of growth.[41] When this is compared with the official recorded African employment in five major towns as presented in Table II-12, it is apparent that the magnitude of urban unemployment has been significant and growing rapidly over time. Moreover, it indicates the danger of distortions in applying the aggregate economy's unemployment gap to describe the urban labor market's unemployment problem. That is, due to the differential rates of population and labor force growth in urban and rural areas, it is possible for urban unemployment to rise over time even if the total economy's unemployment gap remains constant. Various studies undertaken in the past few years support the thesis that in East Africa and other parts of Africa, "by far the most important contributing factor [of rising urban unemployment] has been the massive increase in the number of migrants arriving from surrounding rural areas."[42] Cities like Kampala (Uganda), Nairobi (Kenya) and Dar es Salaam (Tanzania) are reported to be swarming with job seekers of all types and descriptions.

It would be a mistake to lump together the total urban labor force in an analysis of urban excess supply. While comparison of urban recorded employment and total urban labor force as indicated in Table II-12 may be sufficient to describe the demand supply conditions, or excess supply of unskilled urban labor, the skilled and educated category of urban labor would require additional analysis. We indicated above that an imbalance

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[41] P. J. Gormely, op. cit., Table III, p. 4.

[42] M. P. Todaro, op. cit., p. 387.

Table II-12

Uganda: Total African Employment in Five Major Towns, 1959-1966

Year	Employment*	Year	Urban Population (millions) Constant 2.5% Annual Rate of Growth**
1959	52,728	1959	248
1960	50,925	1965	348
1961	48,885	1970	461
1962	49,710	1975	611
1963	49,425	1980	811
1964	52,328	1985	1,074
1965	55,828	1990	1,492
1966	56,327	1995	1,888
		2000	2,503

Sources: *Statistical Abstract, various issues

**P. J. Gormely, op. cit., Table III, p. 4.

exists regarding high level manpower in East Africa, not so much from lack of demand for skilled workers but because of failure to educate the young with skills demanded in the job market. As a recent United Nations study puts it:

> The manpower imbalances show surpluses of young school-leavers whose formal education has ill-equipped them for employment in either the traditional or the modern sector and has oriented them toward white-collar jobs; an acute shortage of middle level and high level manpower, especially those of technical, managerial and supervisory training; and professions giving less pay and prestige than administrative jobs, especially in the early years of independence and Africanization.[43]

Furthermore, since development and investment in East Africa during the 1950's and 1960's were concentrated in urban centers, the young school-leavers were a significant proportion of the rural to urban migrants. Rempel,[44] in a 1970 study of Kenya, reports that the highest propensity to migrate occurs in the 15-19 age group and that most of these are primary and secondary school dropouts. Moreover, Sabot,[45] in a Tanzanian study of the relationship between migration and education, not only confirmed Rempel's findings but added that the propensity of the educated to migrate has increased over time, with secondary school-leavers forming a growing and relatively higher proportion of the rural to urban migrants. The number of school-leavers, and how much of the urban population they constitute, would be difficult to determine quantitatively. Nevertheless,

[43] United Nations, Economic Bulletin for Africa, Vol. X, No. 1 (June, 1970), p. 64.

[44] H. Rempel, "Labor Migration into Urban Centers and Urban Unemployment in Kenya" (Unpublished Ph.D. dissertation, Madison, University of Madison, 1970).

[45] R. H. Sabot, "Education, Income Distribution and Rates of Urban Migration in Tanzania" (Unpublished paper, Economic Research Bureau, University of Dar es Salaam, 1972).

the growth rate of school-leavers could be inferred from the data contained in Table II-13, which indicates the growth of primary and secondary school enrollment in Uganda over the period 1955-1969.

The total primary and secondary enrollment increased by 383,102 over the period 1955-1969. The increase alone is substantially greater than the total enrollment in 1955 or about equal to that in 1960. If the majority of these had settled in urban areas after leaving school, as graduates and/or school-leavers, it would provide the strongest evidence to support the general conclusion that the young and formally educated constitute the largest single group of urban unemployed in the past few years. It would follow that the lowest unemployment rates in urban East Africa may actually be found among illiterates.

Related to this phenomenon is the fact that a relatively high urban family income structure would make it relatively easier to support the young and unemployed. Hence, the school-leavers can afford a longer "waiting period" before accepting a less prestigious and low-paying job. If this hypothesis can be accepted, it would imply that urban unemployment in East Africa would tend to grow with educational levels and with increasing real incomes of urban families. Unless education begins to be supported substantially by payment of fees, thus shifting the current social cost of education into private cost, the number of school-leavers is bound to increase in the future despite the indicated trend of unemployment.

The redistribution of current educational expenditure in favor of non-formal education would not only meet the demands for skilled and semi-skilled workers, as the United Nations study quoted above suggests, but also help restrain the growth rate of school-leavers by tending to increase

Table II-13

Uganda: Growth in School Enrollment by Category

(Aided Schools Only)

Year	Total Primary	Junior Secondary	Senior Secondary	Total
1955	258,887	7,359	5,756	271,992
1956	280,269	12,468	3,256	
1957	313,391	13,821	4,623	
1958	333,785	17,352	4,999	
1959	354,473	19,997	5,555	
1960	363,013	21,341	6,457	390,811
1961	387,295	25,840	6,699	
1962	404,759	30,236	7,826	
1963	466,562	39,136	10,195	
1964	482,470	43,397	12,652	
1965	569,219	9,237	17,323	
1966	633,546		21,548	655,094
- - -	- - -	- - -	- - -	- - -
1969	709,708		35,924	
Growth in Total Enrollment: 1955-1969				383,102

Source: Uganda Government, Statistical Abstract, 1962, 1965, 1970.

the private cost of formal education. Further elaboration of the problem of urban unemployment in East Africa cannot be made until more data become available.

The analysis of the labor market in East Africa (historically and empirically, as much as the available data would allow), with particular reference to Ugandan data, suggests the following broad conclusions.

(1) The excess supply of labor for the economy as a whole has been substantial and is growing in the face of stagnation of total employment and rapid growth in total population and labor force.

(2) The rate of growth in urban population and the labor force has been much faster than for the economy as a whole, reflecting the effects of both natural growth rate and rural to urban migration. Hence, urban unemployment or excess labor supply has been growing at a relatively faster rate, given the stagnation in urban employment as well as total employment.

(3) The characteristics of the urban-unemployed are so complex that a mere comparison of the aggregate urban employment and aggregate urban supply of labor would lead to distorted conclusions. While the excess supply of unskilled urban labor force can be described by a comparison of the number of unskilled laborers with unskilled employment, the excess supply of educated urban labor reflects an over-supply in quantity as well as a failure to relate the content and orientation of educational programs to the development of skills in short supply. Consequently, an excess supply of school-leavers exists side by side with an excess demand for a skilled labor force.

CHAPTER III

AN ANALYSIS OF THE BEHAVIOR OF WAGES: THE CASE OF UGANDA

On the basis of the rapidly growing excess labor supply described in the previous section, and in the absence of monopoly or monopsony elements, economic theory would have predicted a downward trend in average wages.

While average wages may have indicated a secular decline, wages in some distinct categories of the labor market could have increased. For example, the critical shortage of skilled labor in Uganda and East Africa could lead to a rise in skilled vs. unskilled wages. Moreover, the excess supply of school-leavers with formal education would have forced down administrative or clerical salaries so that, as above, the differential between skilled wages and clerical salaries would have secularly shifted in favor of the former. Given a downward pressure that would have been expected to operate on both salaries for school-leavers and wages for the unskilled, the direction of the change in the differential between the two could not, *a priori*, be easily predicted. It would narrow if salaries declined faster than unskilled wages, or widen if unskilled wages declined faster than salaries.

Thus, the overall impact of these adjustments in the level and structure of wages and salaries would have been to reduce, or at least restrain, the average earning level in the "modern" sector, keeping the differential between urban and rural incomes at a level justifiable by economic forces such as differences in productivity levels, differences in cost of living, and/or the cost of transferring labor between sectors.

The impact of these expected changes in wages and salaries on employment would be dependent on the extent of the decrease in average wages relative to the cost of capital -- the other factor of production. Theoretically, the relative cost of labor could remain constant, decline, or increase despite the fall in average wages, depending on the magnitude and direction of change in the cost of capital (i.e., rent).

The shortage of capital is one of the basic characteristics of a developing nation like Uganda. In the absence of distortions, one could, therefore, assume that the secular fall in average wages would lead to a corresponding fall in the relative cost of labor or the wage-rent ratio. Even if some fall in the cost of capital (rent) was allowed, it was unlikely to have been extensive enough to alter the expected decline in the wage-rent ratio.

The Normal Wage Employment Trade-Off

The fall in the relative cost of labor should have been expected to lead to an increase in the employment of labor, contrary to what was observed in Uganda. The theoretical relationship between wage-rent ratio and employment of labor can be shown by using a simple graphic illustration as in Figure 1, where the horizontal and vertical axis indicate units of labor and capital.

Let the initial wage-rent ratio be w_o/r_o where w_o is the initial level of average wages and r_o is the initial level of capital cost. Let AA be the corresponding factor-price line and Q_oQ_o represent the isoquant curve showing the various alternative combinations of capital and labor which

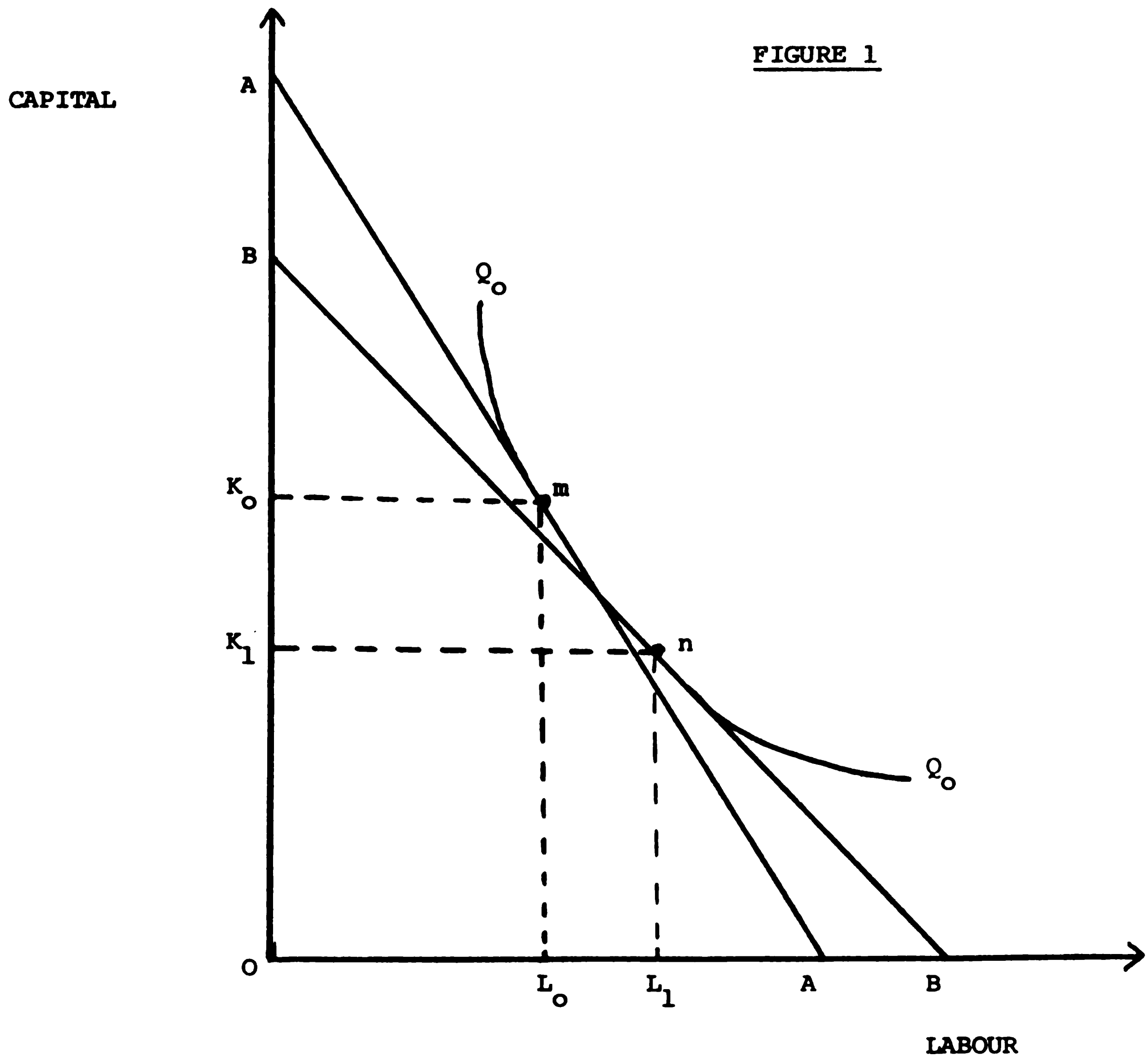

Fig. The Relationship Between Wage-Rent Ratio and Employment could be used to produce the same output Q_o. The producer will minimize cost by producing Q_o at the point indicated by m, where the factor-price line would be tangent to the isoquant curve. In other words, a cost-minimizing producer will employ OL_o and OK_o units of labor and capital, assuming, of course, some flexibility to substitute labor for capital and still produce efficiently.

Now let the relative cost of labor fall from the initial ratio w_o/r_o in such a way that the original factor price line AA shifts to BB. Let the desired output remain the same as under initial ratio w_o/r_o. The cost-minimizing equilibrium will now be at point n. Hence, the same output Q_o will now be produced by using OL_1 and OK_1 units of labor and capital. As shown in our figure, the movement from m to n is a result of pure substitution effect. The diagram could easily be altered to show both the income and substitution effects. Nevertheless, it is shown that under normal assumptions a fall in the relative cost of labor (w_o/r_o) would be expected to lead to an increase in employment of labor.

Employment could also increase even if it is assumed that each firm or industry required fixed capital-labor ratios. A fall in the relative cost of labor could mean that potential investors would tend to favor labor-intensive industries in their investment plans, thus creating potential employment opportunities.

The extent of the expected increase in employment of labor as a results of a fall in the relative cost of labor would, of course, depend on the elasticity of demand for labor. Harris and Todaro[46] have recently

[46] J. R. Harris and M. P. Todaro, "Wages, Industrial Employment and Labor Productivity: The Kenyan Experience," East Africa Economic Review, Vol. I, No. 1 (Nairobi, June, 1969), p. 36.

estimated the coefficient of elasticity with respect to private industry and commerce in Kenya to be about 0.76. In other words, a 10 percent reduction in wages would be expected to give rise to a 7.5 percent increase in employment. It could be assumed that the result applies more or less to Uganda and Tanzania whose labor market conditions are very similar to Kenya's.

The Ugandan Case

In the above analysis, the expected trends in wages if competitive market forces are allowed to operate have been described. In practice, however, the trend in wages may be influenced by non-market forces. In what follows, the predictions of the theoretical analysis to a condition of excess supply of labor in Uganda will be tested with the actual experience of Uganda. It is crucial to know how well theory can explain the actual behavior of wages because any significant divergence between the actual and the theoretical outcomes is the best clue to the existence and importance of non-market or institutional forces in the determination of wages.

Changes in Average Wages

An analysis of the actual trend in wages, and the forces which shape it is a difficult and as yet an unsettled area in economics. The lack of basic data in a developing society such as Uganda, covering a sufficiently long period of time and broad sectors of economic activities, compounds the difficulty. However, the limited information available will be utilized to provide broad, but useful, conclusions. With respect to

Uganda, the studies by J. B. Knight[47,48] are very helpful, particularly in providing a systematic presentation of fragmentary data from published government statistics and information not readily available.

The data in Table III-1 show the trend in average money earnings per employee for all sectors, all employees, and Africans alone, while Table III-2 presents the data disaggregated as between private and public sectors. It will be seen that average earnings of all sectors over the period 1957-1966 rose by about 146 percent or about 15 percent per annum. Moreover, this growth rate was much faster over 1962-1966 (17% per annum) than during 1957-1962 (10% per annum). These rates are substantially lower when all employees are considered. For instance, average earnings of all employees in all sectors was about 10 percent over the period 1957-1966.

Average earnings of Africans in the public sector (Table III-2) over 1957-1966 increased by 159 percent or about 16 percent per annum in comparison to 107 percent or 11 percent per annum in the private sector.

The data support the suspicion often held with respect to East African countries -- that increases in African wages, particularly in the public sector, accounted for a significant proportion of the rapid rise in average money wages.

Table III-3 shows the trend in the index of average real earnings in Uganda. Over the period 1957-1964, average real wages of Africans in

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[47] J. B. Knight, "The Determination of Wages and Salaries in Uganda," Bulletin of the Oxford Institute of Economics and Statistics, Vol. XXIX, No. 3 (August, 1967), pp. 233-264.

[48] J. B. Knight, "Earnings, Employment, Education and Income Distribution in Uganda," Bulletin of the Oxford Institute of Economics and Statistics, Vol. XXX, No. 4 (November, 1968), pp. 267-297.

Table III-1

Average Annual Cash Earnings per Employee: Uganda, 1957-1966

Year	Average Earnings: All Sectors and All Races	Average Earnings: All Sectors and Africans	Index: All Sectors and All Races	Index: All Sectors and Africans
			(1957 = 100)	
1957	91	55	100	100
1958	98	59	108	106
1959	104.7	63.3	115	114
1960	110.2	68.4	121	123
1961	124.9	78.5	137	141
1962	132.7	88.2	146	159
1963	142.0	98.7	156	178
1964	155.5	116.8	171	210
1965	170.3	129.2	187	230
1966	181.0	138.0	199	246

Source: For 1957-1964, J. B. Knight, Determination, p. 237.

For 1965-1966, Ugandan Government, Statistical Abstract, 1969.

Table III-2

Average Annual Cash Earnings by Sector

	Average Earnings				Index 1957 = 100			
	All Races		Africans		All Races		Africans	
Year	Public	Private	Public	Private	Public	Private	Public	Private
1957	94.2	88.2	60.8	51.9	100	100	100	100
1958	103.0	94.5	66.8	53.2	109	106	110	103
1959	106.8	103.2	69.0	58.9	113	116	114	114
1960	116.4	106.0	77.0	62.2	124	119	127	120
1961	131.6	120.0	87.5	71.6	140	135	144	138
1962	143.3	125.0	101.0	78.4	152	141	168	151
1963	148.4	137.8	112.3	89.3	158	155	185	172
1964	168.3	146.3	141.8	97.8	179	165	233	188
1965	178.2	165.2	--	--	--	--	--	--
1966	194.0	173.0	158.0	124.0	--	--	259	207

Source: Same as Table III-1.

Table III-3

Index of Average Real Earnings per Employee by Sector:

Uganda, 1957-1964

Year	All Races			Africans		
	All Sectors	Public Sector	Private Sector	All Sectors	Public Sector	Private Sector
			(1957 = 100)			
1957	100	100	100	100	100	100
1958	104	105	102	102	106	99
1959	111	109	112	109	109	109
1960	128	130	126	130	133	126
1961	115	117	113	118	121	116
1962	154	160	148	167	177	159
1963	161	163	160	183	191	178
1964	164	172	158	202	224	181

<u>Source</u>: Same as Table III-1.

all sectors increased by 102 percent compared to 110 percent for average money wages over the same period (Table III-1). When all employees are considered, average real and money wages rose at rates of 64 and 71 percent respectively. Hence, the rise in consumer prices, shown in Table III-4, and the cost of living, accounts for only a small portion of the rapid increase in money wages.

Given the stagnation in total and African employment, the rapid rise in average money wages leads to significant increases in the total wage bill for Uganda. Table III-5 shows that the increase in the total African wage bill for the economy as a whole was about 11 percent over the period 1956-1964. The increase has been particularly rapid since 1960, as indicated by a 13 percent annual rate of growth over the period 1960-1964. Table III-5 also shows that the increase in the public sector wage bill was greater than for the economy as a whole, while the reverse was true for the increase in the private sector wage bill. This indicates that in the public sector, wages have risen faster and stagnation in employment has been less pronounced than in the private sector.

Changes in Unskilled Wages

Much of the rise in average African wages was explained by significant increases in unskilled wages. This is clear from the data contained in Table III-6. For the economy as a whole, it shows that a relatively larger percentage of the total African male employees moved up from the 0-99 shillings earning bracket than from the higher income brackets. The improvement in the relative earning position of the unskilled was even more pronounced in the main urban towns of Uganda. As shown in Table III-7, comparing 1965 with 1958, the percentage of African male employees earning

Table III-4

Consumer Prices: General and Food Indices

Uganda (Kampala), 1963 = 100

Year	African		European	
	General*	Food	General	Food
1960	97.9	96.7	90.3	93.9
1961	113.5	118.7	92.2	94.6
1962	97.9	96.7	96.1	97.4
1963	100.0	100.0	100.0	100.0
1964	109.4	112.1	102.9	101.7
1965	127.1	134.4	106.5	105.5
1966	121.9	129.7	110.9	108.4
1967	128.1	138.5	113.0	108.8
1968	121.9	124.2	119.0	116.2

*General excludes rent.

<u>Source</u>: ILO, <u>Bulletin of Labor Statistics</u>, 1970, p. 67

Table III-5

Percent Increase in Wage Bill for African Employees

in Uganda: 1956-1964

	1956-64	Annual Rate	1960-64	Annual Rate
Public Sector	140.3	11.6	77.6	15.4
Private Sector	107.0	9.5	49.6	10.1
Economy	123.6	10.6	61.9	12.8

Source: A. Baryaruha, Factors Affecting Industrial Employment: A Ugandan Experience, 1954-1964 (Nairobi: Oxford University Press, 1969), p. 14.

less than 100 shillings dropped more in the main towns than in other areas, while the percentage in the higher income brackets rose more in the former than in the latter. Thus, there was a tendency for a distinct narrowing in the urban wage structure, while the urban and non-urban earnings differential appeared to have widened.

In the absence of classified data on employment by category of skill, it is difficult to be precise on the relative decline of employment as a result of the increase in average wages. Baryaruha[49] estimates that the number of unskilled employees in the economy as a whole dropped by about 15 percent over the period 1959-1964, while in construction and local government it dropped by 22 and 41 percent respectively. J. B. Knight[50] has indicated that the relative fall in the number of unskilled employees has

[49] A. Baryaruha, Factors Affecting Industrial Employment: A Ugandan Experience, 1954-1964 (Nairobi: Oxford University Press, 1967).

[50] J. B. Knight, Earnings, pp. 268-270 and pp. 278-282.

Table III-6

Distribution of African Male Employees by Groups within Industry, Private and Public Services*

Industry	Wage Groups: Shillings per Month														
	0-99 Shillings					100-199 Shillings					200 Shillings and Over				
	1956	1960	1963	1964	1965	1956	1960	1963	1964	1965	1956	1960	1963	1964	1965
	Percentages					Percentages					Percentages				
Agriculture	97	97	57	46	35	2	3	43	52	63	1	-	1	1	1
	(71)	(70)	(10)	(11)	(4)	(21)	(15)	(69)	(68)	(63)	(8)	(15)	(22)	(22)	(32)
Cotton Ginning	94	89	82	77	73	4	7	12	13	18	2	4	7	10	9
Forestry, Fishing	87	71	73	64	77	11	28	23	25	19	2	2	18	11	5
and Hunting	(91)	(77)	(12)	(23)	(20)	(6)	(14)	(75)	(65)	(56)	(3)	(9)	(15)	(11)	(25)
Mining and Quarrying	90	42	24	55	17	9	48	61	32	50	1	9	18	14	33
	(72)	(78)	(49)	(35)	(35)	(28)	(18)	(43)	(57)	(53)	(-)	(5)	(6)	(7)	(11)
Manuf. of Food Products	90	80	33	21	14	8	13	59	71	73	2	7	10	8	12
Misc. Manuf. Inds.	76	62	26	17	12	17	26	55	59	57	7	12	21	25	31
	(57)	(93)	(1)	(91)	(4)	(15)	(20)	(29)	(8)	(32)	(28)	(37)	(71)	(-)	(63)
Construction	73	66	24	28	12	21	26	58	55	67	6	8	14	16	25
	(77)	(79)	(14)	(12)	(21)	(18)	(14)	(73)	(74)	(62)	(5)	(8)	(14)	(14)	(18)
Commerce	71	60	24	23	7	19	25	51	46	54	10	15	26	31	37
		(61)	(48)	(36)	(-)		(18)	(44)	(55)	(86)		(21)	(9)	(11)	(14)
Trans. and Comm.	56	36	7	9	3	31	33	45	44	36	13	30	49	48	61
	(65)	(42)	(16)	(7)	(-)	(23)	(39)	(58)	(60)	(41)	(12)	(19)	(26)	(32)	(60)
Ed. and Med. Services	57	40	34	40	13	22	17	19	23	11	21	44	49	37	74
	(68)	(52)	(9)	(9)	(6)	(17)	(23)	(62)	(57)	(57)	(15)	(25)	(30)	(34)	(36)
Misc. Services	69	70	40	39	28	19	14	38	46	49	12	17	21	15	21
	(72)	(61)	(19)	(8)	(2)	(15)	(17)	(52)	(56)	(39)	(13)	(22)	(31)	(35)	(59)
Central Government	(53)	(41)	(3)	(5)	(-)	(36)	(38)	(44)	(31)	(20)	(11)	(22)	(54)	(64)	(80)
Local Government	(89)	(74)	(51)	(49)	(26)	(8)	(17)	(34)	(35)	(40)	(3)	(10)	(31)	(15)	(22)
TOTAL			42	37	24			44	49	50			16	14	25
			(23)	(22)	(13)			(53)	(49)	(50)			(24)	(28)	(38)

*Public services are indicated in brackets.

Source: Ugandan Government, Statistical Abstracts, various issues.

Table III-7

African Adult Male Employees in Main Towns and Other Areas, by Wage-Group, as a Percentage of Total, Uganda, 1958 and 1965 (shillings per month)

		Private Sector			Public Sector		
		0-99	100-174	175-	0-99	100-174	175-
1958	Main Towns	77.6	11.5	10.9	64.1	18.1	18.8
	Other Areas	80.8	9.0	10.1	72.7	16.3	11.0
1965	Main Towns	17.0	53.9	29.1	5.8	40.7	53.5
	Other Areas	36.7	40.3	23.0	24.1	44.9	31.1
Difference (1958-1965)							
Main Towns		-60.6	42.4	18.2	-57.3	22.6	34.3
Other Areas		-44.0	31.3	12.9	-48.6	28.6	20.1

Source: J. B. Knight, *Earnings*, Table 6, p. 246.

been substantial in both the private and public (central and local) sectors. In short, the substantial rise in average earnings was achieved at the expense of employment, particularly for the unskilled.

The Civil Service Salary Structure

Table III-8 provides some indication of salary levels and structure in Uganda in 1966. It shows that the minimum and maximum salary scale for civil servants with eight years of education[51] (e.g., Clerical Assistant) were 114 and 200 pounds per annum, or 1.3 and 2.2 times the minimum wage for the unskilled workers. Thus, primary school graduates desiring employment in the private sector would tend to ask a starting wage substantially higher than the minimum wage for the unskilled lacking formal primary education. The demand for clerical assistants requiring formal primary education is limited in the private sector, while the irrelevance of formal primary education for factory (or manual) labor does not justify wages much higher than the legal minimum.

The minimum and maximum salary scales for Junior Secondary graduates (12 years of education) in the civil service (e.g., Clerk) were 208 and 598 pounds per annum or 2.3 and 6.6 times the minimum wage for the unskilled. It seems logical to assume that private employers would prefer to employ primary school graduates for factory jobs (even if some education is desirable for the job), primarily because they will be cheaper than junior secondary graduates at a wage rate comparable to that of the civil service.

The minimum and maximum salary scales in the civil service for senior

[51] As salaries are incremental, the length of service and age are also factors determining salary differential.

Table III-8

Comparisons of Teachers and Civil Servants' Salaries, 1966

Classification	Formal Education Completed		Salary (P.A.)		Increments
	Level	Years	Minimum	Maximum	
Teachers					
Secondary Teacher	Honors Degree	17	798	1752	22
Secondary Teacher	Degree	17	738	1752	21
Grade 5	HSC + T2	16	612	1080	16
Grade 3, 4	CSC + T2	14	300	828	24
Grade 2	JSC + T4	12	189	354	13
Grade 1	P6	8	132	276	17
Civil Servants					
A	Honors Degree	17	798	1791	19
G3-1	Degree or Equivalent	17	687	1671	23
Executive Officer	HSC	14	473	1671	32
Clerk	CSC	12	208	598	22
Clerical Assistant	JSC	8	114	200	11

Source: J. B. Knight, Salary Structure in Uganda, Economic Development Research Project No. 106 (Kampala: September 9, 1966), Table 9. See also footnote 48.

Key: HSC = High School Certificate, CSC = Commercial School Certificate, JSC = Junior School Certificate.

secondary school graduates (14 years of education) are shown to be about four and eight times the minimum and maximum for primary school graduates and about two and three times the minimum and maximum for junior secondary graduates. The salary differential between junior and senior secondary graduates is too large for a mere two years differential in education. An even wider differential exists between college and lower level graduates.

The salary scale for teachers follows very closely the salary scale in the civil service. Given the same level of formal education, a somewhat higher salary scale for teachers is explained primarily by the extra training required to acquire a teaching certificate.

In addition to fixing the minimum and maximum for each level of salary scale, the per annum increments and the number of years it would take to reach the maximum pay are clearly stipulated. Thus, the rise in total cost of salaries is also a function of changes in staff numbers and staff regrading. Table III-9 shows that over the period 1956-1964, the total civil service salary cost rose by 114 percent. Growth in staff numbers accounted for a major portion of the rise, while increments in salary scales were also important. The influence of staff regrading has not been significant.

The rise in the total salary cost of education has been faster relative to the civil service salary cost. Table III-10 shows that over the period 1955-1965 the total salary cost of secondary and primary education rose by 348 and 227 percent respectively. An increase in the number of teachers has been important in both increases, but more so for secondary education. The impact of staff regrading was relatively less important in secondary education, while the rise in salary scales was significant in

Table III-9

Index of Civil Service Salaries, 1956-1964

Index of Salaries Attributable to:	1956	1960	1964
Staff numbers	100	129.8	184.0
Staff regrading	100	99.1	102.2
Salary scales	100	105.0	113.6
Total salary cost	100	135.1	213.6

Table III-10

Salary Cost of Primary and Secondary Education, 1955-1965

Index of Salaries	Primary Education			Secondary Education		
Attributable to:	1955	1960	1965	1955	1960	1965
Teacher numbers	100.0	136.1	179.0	100.0	125.0	303.9
Teacher regrading	100.0	108.7	115.4	100.0	116.0	105.0
Salary scales	100.0	116.0	157.9	100.0	128.5	139.3
Total salary cost	100.0	171.6	326.9	100.0	186.0	447.9

Source: J. B. Knight, Salary Structure in Uganda, Tables 6, 9, 10.

both, particularly for primary school teachers.

It is obvious that total salary cost could increase substantially by upgrading existing or new staff to higher scales in the salary structure. Moreover, the rise in the level and total cost of salaries has not curtailed growth in the number of civil servants and teachers. Africanization of the civil service, and extension of government involvement in directly productive activities through Development Corporations, accounted for the rise in the number of civil servants. The rapid growth in the number of teachers was explained by the rapid increase in school enrollment described earlier.

The fact that the government, unlike private employers, is not guided by profit-maximizing objectives (excluding perhaps its behavior in directly productive activities), could partly explain the rise in public employment, despite the rapid increase in level and total cost of salaries. But such policies can only be maintained over the short run. Sooner or later, the capacity to generate additional employment opportunities in the public sector would be constrained by limited capacity to raise additional revenue, either through taxation or borrowing (internal and/or external). In Uganda this limit appears to have been reached already. As evidence, the Minister of Finance was recently reported to have said: "Government has decided to continue the embargo on recruitment within the civil service, and, if need be, reduce employment opportunities within the government."[52]

Contrary to the predictions of a competitive market model, the above

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[52]See African Development (African Buyer and Trader Ltd., Wheatsheaf House, Carmelite Street, London EC4Y OAX, June 1972), p. U. 12.

analysis demonstrates that the actual levels of wages and salaries in Uganda have been rising rapidly despite the demonstrated upward trend in the aggregated unemployment gap and urban open-unemployment. The rise in unskilled wages has substantially reduced already-employed unskilled labor, and added to the excess supply resulting from a rapidly growing population and labor force. The growth in salaries has been accompanied by some growth in the level of employment of both teachers and civil servants. But an increase in salary cost must indirectly and negatively affect total employment by limiting the government's ability to expand productive investments in agricultural and industrial activities.

Changes in the Distribution of Income

The above non-market changes have affected the relative distribution of incomes within the "modern" or urban sector as well as between rural and urban areas of Uganda. An estimation of these changes is difficult because of statistical inadequacies and the conceptual problem of pricing peasant outputs. Moreover, non-uniform distribution of free and/or subsidized public services among different areas and/or groups limits the validity of estimating changes in relative position on the basis of earned income. Despite these limitations, however, some estimation of the broad changes in the distribution of income within and between areas is possible.

J. B. Knight[53] has attempted to estimate the changes in the distribution of income in Uganda over 1954-1964 by considering private sector incomes and households by category of recipients. He shows that peasant incomes per household, on the average, remained more or less constant at

[53] J. B. Knight, *Earnings*, pp. 290-293.

76 and 77 pounds per annum, while the share of peasant income in total private income dropped from about 70 to 62 percent. As these estimates are averages, the relative positions of some peasants may have been much worse.

In contrast, the average income per household of wage and salary earners over 1954-1964 is shown to have risen from 100 to 189 pounds per annum. Disaggregated between taxpayers (mainly salariat) and non-taxpayers (mainly unskilled) this shows that income per household increased from 936 to 1436 pounds for the former and from 71 to 135 pounds for the latter. The share of wage and salary earners as a group rose from about 18 to 23 percent and, if shown separately, the share of unskilled workers would have been even more marked. Finally, Knight estimates the share of profits in total private income to have grown from 13 to 15 percent over the period 1954-1964. He indicates that the growth was mainly for companies rather than self-employed business.

In comparison, Stoutjesdijk[54] estimated that for the total manufacturing sector in Uganda, annual rate of growth of the sum of profits, interest, and depreciation has been -7.7 and -2.6 percent respectively in 1957-1962 and 1963-1965. When he considered five individual firms owned by the Uganda Development Corporation, the results regarding profits were mixed.[55] For Uganda Cement (1953-1966), and Nyanza Textiles (1959-1966) net profits before taxation as a percentage of total capital were positive for each year. For Nyanza Textiles the percentage had increased from 20 in 1959 to 32 in 1965. For Uganda Cement, the percentages fluctuated

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[54] E. J. Stoutjesdijk, _op_. _cit_., p. 27.

[55] _Ibid_., Tables 12, 15, 18, 21, 24.

widely from near zero to high levels so that no clear trend was discernable. In the remaining three firms, metal products, chemicals and fertilizers, and distilleries, the profit levels were, on the average, negative. In sum, then, Knight's suggestion that the share of profits in total private income had shown only slight improvement appears to be reasonable.

If we had considered the distribution of disposable income, the relative position of unskilled wage employees would be better than indicated above. While export taxes and income taxes have significant impacts on peasant incomes and the incomes of salariats and profit receivers, respectively, unskilled workers are affected by income tax relatively less. This would tend to narrow the real earnings within the urban sectors while the rural-urban differential would tend to widen. Furthermore, while indirect taxes which fall more heavily on high income earners in the urban areas would tend to reduce the urban real income differential, their impact on the urban-rural differential is not at all clear for the higher urban area cost of living would tend to be cancelled by the concentration of public services it enjoys.

To conclude, it is shown that the differential between income of salary earners and unskilled wages have tended to narrow from below. The evidence suggests that the rise in average wages have been at the expense of primarily peasant incomes and, to a lesser extent, profits. These changes were contrary to what one would expect on the basis of normal economic analysis.

Before this section is concluded, some broad estimates of the wage-rent ratio in Uganda will be presented on the basis of the actual trends in the cost of labor described above and some estimate of the trend in the cost of capital to Ugandan economy.

The Wage-Rent Ratio in Uganda

It was indicated above that given the prevailing factor endowments in East Africa, the secular fall in average wages predicted on the basis of a growing excess labor supply should result in a fall of the wage-rent ratio and a rise of labor employment.

Implicit in the analysis was the assumption that changes in average wages or the cost of capital would make labor or capital more or less costly. In reality, this need not be the case if there are corresponding changes in the productivity of labor or capital to cancel out the changes in factor cost. Ideally, then, the estimate of wage-rent ratio should be based on indices of wages and cost of capital deflated for changes in productivity. In the absence of usable productivity data, however, the estimate of wage-rent ratio in Uganda will be based on the simplified assumption that labor and capital are of constant quality.

The index of average money wages in Uganda over the period 1957-1966 has already been provided in Table III-1 above. What remains is to estimate the cost of capital over the same period. This would be difficult, since it involves knowledge of a number of elements -- the rate of interest on borrowed funds (domestic and foreign); depreciation allowances provided on investments and/or expansion of existing facilities; import duties on imported capital goods; the lifetime of the investment in capital goods and the ease with which foreign exchange is made available, including information on the official rate of foreign exchange, so that the cost of capital could be expressed entirely in local currency, comparable to the cost of labor.

Unavailable or inadequate statistical data on these elements of the cost of capital make it difficult to measure accurately the trend in the cost of capital. The importance of some of these elements can, however, be safely ignored. For instance, since the foreign component of Uganda's gross capital formation is estimated to approach 90 percent,[56] it is possible to assume that imported capital goods serve as the approximate indicator of the trend in investment. This will allow us to define the cost of capital as $r = f(i,n)[P_c]$ where $f(i,n)$ is the fraction of the original investment which must be earned annually over n years, the lifetime of the investment, to cover both interest and depreciation, and P_c is an index of the supply price of imported capital goods.

Even this simplified formula to calculate the cost of capital would require knowledge of the domestic and foreign components of funds used to purchase the imported capital goods and the corresponding domestic and foreign rates of interest. It would also require detailed knowledge of the extent of depreciation write-offs, profit-tax privileges, import duties and other domestic costs so that P_c, the supply price of imported capital goods, could be properly adjusted.

While accurate statistical data concerning these requirements may not be available for Uganda, and for Kenya and Tanzania as well, it is possible to indicate broadly what the trend has been. Since the 1950's and particularly since independence in the early 1960's, the East African governments had embarked on a policy of rapid industrialization. To encourage capital investment, interest rates were generally kept low, foreign

[56] J. B. Knight, Earnings, p. 272.

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aid policies were such as to encourage imports of capital goods, foreign exchange was made easily available to importers of capital goods, and import duties on capital-goods were non-existent or relatively minor.[57] The artificial cheapening of capital -- the relatively scarce factor in East Africa -- was intensified by the competition among the three countries to attract capital. The effect of all these policies was to deflate the effective price of imported capital goods, P_c, and the cost of capital as defined above in the simple formula.

The Ugandan government provides annual data on the price of imported capital goods -- specifically, machinery and transport equipment. The fact that it is given in local currency makes it readily comparable with average wage data. The index of the price of imported capital goods has been used to indicate the trend in the actual cost of capital goods, bearing in mind that the true cost would have been smaller if adjustment for the effects of capital-cheapening domestic policies were considered. The estimate of the wage-rent ratio or the relative cost of labor based on the straight use of unadjusted index of import price of capital goods would underestimate the actual magnitude of the relative cost of labor and should be interpreted with this in mind.

Table III-11 brings together the Ugandan index of average money wages, for Africans and all races, and the price index of imported capital goods, machinery and equipment, for the period 1957-1966. These have been used to calculate an indicator of the trend in wage-rent ratio over the same

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[57] See D. Pearson, Industrial Development in East Africa, Studies in African Economics No. 2 (Nairobi; Oxford University Press, 1969), pp. 167-192.

Table III-11

Estimate of the Wage-Rent Ratio for Uganda: 1957-1966

Year	(1) Index of Average Money Wages P.A. (a) All Races	(b) African	(2) Price Index of Imported Capital Goods*	Wage-Rent Ratio $\frac{1(a)}{2}$	$\frac{1(b)}{2}$
1957	100	100	100	1.00	1.00
1958	108	106	94	1.15	1.13
1959	115	114	98	1.17	1.16
1960	121	123	101	1.20	1.22
1961	137	141	99	1.38	1.42
1962	146	159	106	1.38	1.50
1963	156	178	98	1.59	1.82
1964	171	210	105	1.63	2.00
1965	187	230	115	1.63	2.00
1966	199	246	99	2.00	2.49

Source: Ugandan Government, Statistical Abstract, and Table III-1 above.

* Includes only machinery and transport equipment.

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period. It can be seen that the ratio or the relative cost of labor over the entire period 1957-1966. These have been used to calculate an indicator of the trend in wage-rent ratio over the same period. It can be seen that the ratio or the relative cost of labor over the entire period doubled if the money wage for all races is used, more than doubled if the wage scale for African employees alone is used. In both cases, however, the estimates would be higher if the index of the price imported capital goods were deflated to take account of policies to reduce the cost of capital investments. Nevertheless, the estimate presented is sufficient to indicate that the relative cost of labor has been rising despite the abundance of labor and scarcity of capital which characterizes the Ugandan economy.

In summary, the Ugandan case illustrates a situation where average and unskilled wages have been rising despite a secular and significant rise in sectoral and total unemployment, and contrary to the normal wage-employment trade-off presented above. Thus, there was a great disparity in income between urban and rural areas. Moreover, the differential in income between manual and clerical employees and between both and white collar workers is much greater than is the case in developed nations, or what would have been the case on the basis of productivity differentials. This situation comes from maintaining a rigid relationship between the level of formal education achieved and earnings.

In a country such as Uganda where the bulk of the cost of public services is wages and salaries, rapid growth in those areas will significantly limit the growth of employment in the public sector. Since market forces of demand and supply of labor fail to explain the actual trends in wages and employment, the next chapter will examine the role of non-market forces in the determination of wages and employment.

CHAPTER IV

NON-MARKET DETERMINATION OF WAGES AND SALARIES

An ingrained distrust of the market mechanism as a means of resolving national economic issues has been one of the basic characteristics of British colonialism in East Africa. National economic decisions were perceived as legitimate civil service functions. For example, Colonial Labor Commissioners dominated the field of labor policy in general and the determination of wages in particular.

There was no pre-World War II legislative attempt to fix minimum-wages for unskilled labor in East Africa. Yet it would be wrong to assume that during this period wages were determined by the free interaction of demand and supply of labor. A collusion of non-African private employers and generally pro-employer Colonial Administrators effectively prevented wage flexibility by controlling the flow of labor supply. As indicated in Chapter II, compulsory and/or indirect measures (e.g., taxes) were put into effect whenever employers faced a shortage of labor. Such non-market determination of unskilled wages was rationalized by claiming that African peasants were unresponsive to monetary or wage incentives. In reality, the motive was exploitation, since the rapid expansion of peasant cash crops in the pre-World War II period had already disproved the "unresponsiveness" hypothesis.

In regard to high level or administrative-supervisory labor, where Africans and non-Africans were in potential or actual competition for the same or related jobs, competition was prevented or at least retarded by the colonial policy of separating employees into racially distinct labor markets and salary categories. Related to this practice was the fact that salary scales tended to be higher for jobs normally held by non-African employees (e.g., administrative, supervisory, clerical, etc.). For Africans, moving into these job classifications meant movement into a higher status and salary category. Since these jobs required some formal education, Africans aspired toward acquiring formal education in mission schools or government schools, rather than technical skills. This practice of equating job status and salary to level of formal education has generally been carried over by the African elite who assumed political power in East Africa after independence in the early 1960's.

In the post-World War II period, the salary scales of African civil servants and high-level employees improved substantially, not because of a sudden shift in market conditions but, as shown below, as a consequence of colonial abandonment of the old policy of maintaining separate basic salary scales for the different races. The structure and principle behind the determination of these salary scales has been maintained to this day despite changes that have been occurring in the market conditions of East Africa.

Moreover, the post-World War II period saw the gradual introduction of legislative determination of minimum wages for unskilled labor -- a process which was intensified after the political independence of the East African regimes. The pre-World War II pro-employer bias in the determination of wages gradually gave way to a post-war bias in favor of urban workers. The primary forces behind this shift in wage policy were political and social rather than economic. Where unskilled workers are the dominant segment of the total labor force, minimum wage determination divorced from the economic criteria of the level of productivity achieved by workers implies a substantial distortion of factor-pricing with substantial and negative consequences for the generation of employment opportunities.

The post-World War II institutional or non-market determination of wages and salaries in East Africa will be illustrated below with particular reference to Uganda. The experience of Uganda in the determination of wages and salaries broadly reflects the practices that were prevalent in Kenya and Tanzania as well.

The Determination of Salaries

Up to 1954, colonial policy set African salary scales at three-fifths of that for expatriates doing comparable work. The differential was explained officially on two grounds: (1) that the expatriate workers had to be paid salaries comparable to what they could earn in their home countries; and (2) that it was unwise to create "any class of Africans... divorced in income and interests from their fellows"[58] in the countryside.

With the growing African elite and Africanization of the civil service, the racial differential began to cause resentment. An explanation like (2) above, with implicit racial overtones, in addition to the pattern of social life and housing which separated the races in urban areas, seriously weakened the acceptance by Africans of the economic argument for the

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[58] Report of the Commission on the Civil Service of Kenya, Tanganyika, Uganda and Zanzibar, 1947-1948 (Nairobi: Government Printer, 1948), p. 92. (Otherwise known as the Holmes Commission)

salary differential indicated by (1) above. These resentments, along with growing political awareness and organization on the part or urban Africans in Uganda and the other East African countries, led to the establishment of common basic salary scales for all employees regardless of race. Thus, in 1954, the Lidbury Commission[59] suggested the establishment of basic salary scales applicable to all civil service staff -- with an "overseas addition" to induce expatriate personnel to come and work in East Africa. The immediate impact of this policy was to tie the structure of African salaries to those of expatriates -- the latter reflecting demand and supply conditions in overseas labor markets -- and hence narrowing the gap between African and expatriate earnings.

In Uganda, for instance, the impact of the Lidbury Commission Report was said to "more than halve the gap between local and expatriate earnings"[60] over the period 1954-1960, although the gap later widened again, reaching in 1965 the same level as in 1954. The widening of the gap was not due to downward adjustment of African salary scales, which were in fact rising, but to increments in the "overseas addition" to expatriate employees paid by the home government, Britain.

The African elite, since independence, maintained the colonial basic salary scales in addition to assuming non-salary benefits such as paid vacations, free or subsidized housing, and so on, without much consideration to the needs of economic development -- supposedly the basic objective

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[59] Report of the Commission on the Civil Services of the East African Territories and the East African High Commission, 1953-1954 (Nairobi: Government Printer, 1954).

[60] J. B. Knight, Earnings, p. 253.

of East African regimes since independence.

Another important aspect of the salary structure, inherited by Uganda from the colonial period and maintained since independence, was the policy of rigidly tieing salary scales to the level of formal education achieved, with an arbitrarily wide differential maintained between higher and lower levels of education. This was illustrated in Chapter III. The point to emphasize here is, in the words of Henderson:

> The income differentials between groups with contrasting educational attainment are greater than any cost-benefit analysis of the value of education would sustain, and the earnings of manual-clerical laborers, as a percentage of the wages of white collar workers, are extremely low.[61]

In other words, the size and structure of salary differentials had very little to do with merit or the actual productivity of civil service employees. The market for high-level manpower in Uganda was not only monopsonistic, but the monopsonist, being the government, need not attempt to maximize profits or set salaries on the basis of productivity.

The tendency for some private sector salaries in Uganda to exceed the salary levels of comparable educated manpower in the civil service may create an impression that the private sector acts as a leader in salary determination. Such differentials exist in some specific cases, particularly in the large expatriate firms. Yet, given the fact that the Ugandan government "pays the salaries of about 82 percent of high level manpower,"[62] its dominant position cannot be disputed, as a general rule. This position was supported by a Ugandan government commission which

[61] J. P. Henderson, "Wage Policy in Africa," in African Conference on Economics (Mimeograph, Temple University, 1968), p. 3.

[62] J. B. Knight, Earnings, p. 259.

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reported that there was "evidence to show that it is the level of salaries in the government service that determine the general salary pattern in Uganda."[63]

Consequently, basic salary scales of high-level manpower in the private sector tended to follow closely those in the government sector, even though some changes may occur following promotions and/or improvements in the productivity of the worker or the firm. Moreover, as Henderson argues, the paternalistic relationship between government and the private sector, before and after independence, had created a climate where the private sector was quick to emulate the policies of the government in return for state aid and protection.[64]

The East African governments had a policy of increasing the employment of high-level manpower through the generation of new jobs and Africanization of existing jobs. Since, as in Uganda, expatriates accounted for over 50 percent of the total high-level manpower, Africanization alone would have required the substantial expansion of high-level education and teachers. But, as was indicated in Chapter III, the level and structure of the salary of teachers follows closely those of civil servants and moreover, the salary cost of teachers constituted a major portion of the total educational cost. Hence, "the manpower needs cannot be met because to increase enrollment to the necessary levels would bankrupt most governments,"[65] such as Uganda.

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[63] Report of the Uganda Civil Service Commission (Entebbe: Government Printer, 1963), p. 28. (Otherwise known as the Ani Commission)

[64] J. P. Henderson, *op. cit.*, p. 7ff.

[65] *Ibid.*, p. 5.

In short, the arbitrary determination of salaries on colonial criteria, which were primarily non-economic, continued to frustrate the high-level manpower needs and the long term goals of economic growth in Uganda.

The Determination of Unskilled Wages

Like the determination of salaries, the post-World War II determination of unskilled wages in Uganda was inherited from the colonial era. The government, as the dominant employer, and with statutory determination of minimum wages, sets the general pattern of unskilled wages.

The colonial basis of wage policy in the post-World War II period can be traced back to the Colonial Development and Welfare Act (CDWA) passed by the British parliament in 1940 so as "to promote the prosperity and happiness of the peoples of the colonial empire."[66] The colonies were instructed to take measures to raise the standard of living of Africans "for humanitarian, political, ...and economic reasons."[67] Growing labor disturbances in the main towns of East Africa during the forties were interpreted by the colonial regimes as being caused by inadequate housing and low wages and these provided the "humanitarian and political" reasons for legislative determination of minimum wages. The economic justification was quickly formulated by the Colonial Labor Commissioners. For example:

> Long-term policy is directed towards the maintenance of stabilization between agricultural and industrial areas. This means the development of independent wage workers without subsidy from the native land unit.... The first step towards stability is the general adoption

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[66] Great Britain, *op. cit.*, p. 8.

[67] Great Britain, "Colonial Office Circular Dispatch of 5th June, 1941," quoted in A. H. Amsden, *International Firms and Labor in Kenya: 1945-1970* (Frank Cass & Co., 1971), p. 12.

> of a 'living wage' standard for an African divorced from his native land unit.[68]

Individual territories set up committees[69] while the British Government set up regional commissions[70] to study and make recommendations for the criteria, level, and scope of minimum wages. Their reports supported the basic humanitarian, political and economic justifications for a legal minimum wage already laid down by the various labor officials in each territory of East Africa.

The first minimum wage order in Uganda was made in 1949 when the minimum wage of 33 shillings per month was set in the main towns of Kampala and Jinga.[71] In Kenya, it was enacted three years earlier.[72] Initially, the minimum wage was based on the "need" of a single worker and limited to a few large cities. As could be expected, the private employers were unhappy about the emerging trend of post-war wage policy. Colonial officials were somewhat divided in their opinions. Sir Philip Mitchell, a Colonial Governor, warned that the post-war increase in African wages "is bound to involve, in time at least, a serious consequential problem of unemployment."[73]

In contrast, the colonial Labor Ofifcials were not satisfied with a

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[68] Colony and Protectorate of Kenya, Labor Department Annual Report, 1946, p. 14.

[69] Colony and Protectorate of Kenya, Report of the Committee on African Wages (Nairobi: Government Printer, 1954). (Otherwise known as the Carpenter Report)

[70] Great Britain, The East African Royal Commission Report, 1953-1954, Cmd. 9175 (London, H.M.S.Q., 1955).

[71] J. B. Knight, Earnings, p. 244.

[72] A. H. Amsden, op. cit., p. 12.

[73] P. E. Mitchell (Sir), African Afterthoughts (London, 1954), p. 237; quoted in A. H. Amsden, op. cit.

"bachelor" minimum wage. For instance, the Kenyan Labor Department reported that "...the general level of wages must be described as low."[74] In a report of the latter view, the Carpenter Report stated: "We are conscious of a feeling not so much of 'complacent satisfaction' as of growing discontent and frustration,"[75] since 50 and 25 percent of all urban workers in Kenya were receiving "...insufficient wages to provide for their basic essential needs."[76] Implicit in these justifications for increasing the level and scope of minimum wages was the need for stabilization of labor.

As indicated in Chapter II, the various labor departments in East Africa had by this time begun to report signs of an emerging excess supply of labor -- a condition which should have led to stabilization or lower turnover of labor. Yet they were still arguing for higher wages to stabilize labor.

Following the Carpenter and East African Royal Commission Report, a "family" minimum wage -- sufficient for a husband, his wife and two children -- was adopted in Uganda, Kenya and Tanzania. The law did not cover agricultural workers. The effect was to widen an already existing disparity between rural and urban unskilled workers.

The basic criterion for a minimum wage was the concept of the Poverty Datum Line -- i.e., an income to enable the basic and elementary needs of the family to be met. As Henderson pointed out, the minimum requirements

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[74] Kenya, Labor Department Annual Report, 1952, p. 8.

[75] The Carpenter Report, p. 55.

[76] Ibid., p. 32.

suggested for East Africa tended to be significantly above the actual expenditure of families according to government surveys.[77] The actual minimum wage adopted tended to lie in between the two.[78] Initially, the governments were content to use the "family wage" as a goal to be gradually achieved. For instance, the second minimum wage order in Uganda was not enacted until 1959. Yet, as Table IV-1 indicates, the minimum wages paid by local governments and the central government in Kampala were 38 and 68 shillings per month, respectively. The latter was about 130 percent above the 1949 level or a 13 percent annual rate of growth. A comparable pattern of changes occurred in the other East African countries.[79]

Increases in the Ugandan minimum wage since 1959 were rapid, particularly after independence in 1962. Over the period 1958-1965, a short period indeed, the legal minimum in Kampala had grown by 355 percent or about 44 percent per annum. Over the same period, the minimum wage paid by the central government to its own employees had grown by 122 percent, or about 15 percent per annum. While the absolute level of minimum wages in local governments was much lower than in Kampala and other main towns, the percentage growth was roughly parallel.

The significant improvement in the relative earnings position of African male employees in the main towns and in the lowest income brackets (see Table III-7 above) could be partly and primarily explained by the rapid rise in minimum wages. The consequence in terms of a significant fall in unskilled employment has already been indicated.

Furthermore, if we compare the data in Tables II-1, III-1 and IV-1,

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[78] J. B. Knight, Earnings, p. 245.

[79] For Kenya, for instance, see A. H. Amsden, op. cit., p. 18.

Table IV-1

Government-Determined Unskilled Wage Rates

(shillings per month)

Year	Minimum Wage in Central Government: Kampala	Minimum Wage in Central Government: Elsewhere	Minimum Wage in Local Govt.	Legal Minimum Wage in Kampala
1957	68.0	--	38	33.0
1958	68.0	--	38	33.0
1959	75.0	--	38	75.0
1960	81.0	--	38	75.0
1961	81.0	--	47	75.0
1962	104.0	104.0	47	75.0
1963	121.0	104.0	60	120.0
1964	151.0	135.0	78	120.0
1965	151.0	135.0	78	150.0
1965 (1957 = 100)	222	--	205	455

Source: J. B. Knight, "The Determination of Wages and Salaries in Uganda," Bulletin of the Oxford Institute of Economics and Statistics, Vol. XXIX, No. 3 (August, 1967), p. 246.

a rough correlation between the trend in minimum wages, total employment and average African wages would be evident. Over the period 1958-1961 the latter increased by about 35 percent or by slightly more than 8 percent per annum while total employment dropped by roughly 3 percent over that period. The drop in non-agricultural employment was about the same (Table II-4). The impact of the sharp rise in minimum wages in 1962, from 81 shillings per month in 1961 to 104 shillings per month in 1962, was immediate and significant. Average African wages (Table III-1) rose by about 18 percent over 1961-62 while total employment (Table II-1) dropped sharply in 1962 to a level below that which prevailed in 1954. Non-agricultural employment (Table II-4), which had been falling since 1959, reached a level about 7 percent below that which prevailed in 1957. The same general relationship between the changes in minimum wages, average wages, and employment was evident since 1962. Thus, over the entire period 1958-1965, legal minimum wages in Kampala, the minimum wage paid by the central government in Kampala, and that paid by local governments rose by 355, 122, and 105 percent respectively, while average African wages rose by 124 percent and total, as well as non-agricultural, employment more or less stagnated.

From the above data, there can be no doubt that the rapid rise in minimum wages contributed to the rapid rise in the level of average wages observed in Uganda in the past. The argument is particularly strong as the Ugandan Government is the dominant employer of unskilled labor as well as high-level government.

It may be hypothesized that the premature unionization of labor might, in fact, have been the major cause of the rise in unskilled and average wages. Trade union membership in Uganda since 1954 has grown very rapidly -- from 680 members in 1954 to 65,000 members in 1966.[80] On the surface, this would tend to suggest an increase in the power of trade unions vis-a-vis employers and hence in the ability of workers to secure higher wages through collective bargaining. Indeed, negotiated wages in a large number of industries in Uganda were at levels well above minimum wages.

However, given the subordination of labor unions to political parties in Uganda and East Africa as a whole, and the limited right to strike, the mere increase in union membership would have an insignificant impact on union power. Moreover, unions in East Africa were and still are financially weak and, therefore, could not sustain an extended strike even if allowed. For these reasons, it is reasonable to argue, as Knight does,[81] that the excess of negotiated wages over minimum wages was more probably due to the decisions of the profit-maximizing firms following increases in productivity or preceding productivity increases under the belief that higher wages might lead to lower turnover and higher efficiency. Moreover, in some of the industries, the fact that unskilled wages have been a small proportion of total cost provides a strong explanation of the tendency to observe negotiated wages above the level of minimum wages.[82] In general, Knight suggests that trade unions have had, if any, a minor influence on the level of average wages in Uganda. Henderson argued in a similar manner with respect to Nigeria, adding that the trade unions' "...weak economic position is paralleled in Uganda."[83]

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[80] J. B. Knight, _Earnings_, p. 248.

[81] _Ibid._, p. 249.

[82] J. B. Knight, _Earnings_, pp. 249-250.

[83] J. P. Henderson, _op. cit._, p. 9.

Henderson[84] develops more fully the paternalistic relationship between colonial regimes and private enterprise which was referred to in Chapter II above. Moreover, he argues persuasively that the same relationship had continued since independence, although the reasons for cooperation might have changed. Implicit in this relationship was government aid and protection extended to the private sector, and private employers' quick adjustment of wages to the level dictated by government policy or minimum wages. Hence, trade unions were not required to force employers to emulate the wage policies of the government for its own employees.

Therefore, the effect of unions on average wages, if any, could have been through influence on government wage policies, as a powerful voting bloc and/or as a member of Minimum Wage Advisory Boards. The voting influence of unions was relevant to the early 1960's and before the emergence of one-party politics. Such was the case in Uganda where the minimum wage was raised substantially just before the 1962 general election (see Table IV-1). In the context of a one-party system, however, which became the practice in Uganda and throughout East Africa soon after independence, the voting influence of unions was effectively neutralized. There was no choice but to vote the party line.

As Advisory Board members, however, unions were given the opportunity to influence minimum wages to their advantage. As the employer representatives tended to be large expatriate firms -- who were in most cases already paying wages above the legal minimum -- they tended to lend their support to increasing minimum wages. This was the observation Knight

[84] Ibid., pp. 7-14.

made with respect to Uganda.[85]

As the impact of minimum wages or government wage policies on average wages and on employment, particularly those of unskilled labor, is clear, one must evaluate the supposed benefits of "need" based minimum wages against the various social costs in order to determine the net benefit or loss to society. In what follows, therefore, a brief evaluation of popular arguments in support of minimum wages will be provided to show the basic flow in these arguments and the net loss to society of perpetuating the policy of minimum wages under the traditional or colonial criteria.

The most popular argument in support of raising minimum wages was that it would increase consumption of goods and services produced in the domestic economy and thus permit domestic firms to produce to full capacity. Moreover, a small increase in domestic consumption was at times suggested to cause a much more significant increase in national product through the operation of the "multiplier" a la Keynes. This would be true, however, if we assume a closed economy or a low marginal propensity to import on the part of those who received wage increases. In reality, an economy such as Uganda's is open to international trade, and imports of consumption goods generally sell at prices competitive with domestic prices even under a protected internal market. Moreover, imported goods may be of superior quality and durability. Hence, unless imports are significantly and quantitatively restricted, unlikely in a system of normal international trade, the marginal propensity to import of wage earners is likely to be high in

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[85] J. B. Knight, Earnings, pp. 250-251.

East Africa. If so, increased wages would lead to increased output, and increased employment abroad and not so much in East Africa.

As we have shown earlier, the rise in average wages in East Africa was primarily at the expense of peasant income. Even if the proposition that increased wages would lead to higher consumption of domestic goods and services were true, one would have to show that the marginal propensity to consume of urban wage earners is higher than that of peasant consumers to argue that there has been net addition to domestic consumption. There is no convincing evidence to prove a higher propensity to consume of urban workers.

On the other hand, peasant receivers of income should be expected to have a consumption pattern which could more easily be satisfied by domestic goods and services. Furthermore, part of the increase in peasant incomes would go for purchases of investment goods (e.g., fertilizer, tools, etc.) available domestically. If so, purchases of domestic goods and services would more effectively be increased through policies to increase prices paid to peasant producers of cash crops, rather than policies to increase urban wages. In a country like Uganda, characterized by a predominantly peasant economy, the argument on the side of wage restraint appears much stronger. Employment generation, balance of payments, expansion of domestic markets, exports, all appear to require wage restraint. On the above grounds, it would be unreasonable to argue that the benefit to society from increasing minimum wages would be higher than the social cost in terms of rising unemployment.

Another popular argument in support of raising minimum wages was that it would lead to increased efficiency and stabilization of labor. We have already indicated that in a situation of mass unemployment, higher wages would not be necessary to keep labor turnover at a minimum. Moreover, there is no valid basis to argue that increasing wages would automatically lead to improved health, efficiency or productivity of workers. There may be an observed correlation between wage changes and productivity, as Knight has shown for Uganda,[86] but this does not prove which is the cause and which is the effect.

Furthermore, it is extremely difficult to reduce to quantitative measurement the "minimum need" of a given worker or family. First, how much protein, calories, etc., an individual would need depends on variables such as age and the intensity of work done. Second, there is no guarantee that increased wages would lead to the purchase of more nutritious food.[87]

Even if the proposition that increased wages would lead to improved diet and health of the worker were valid, it does not necessarily follow that the efficiency of the worker would improve, since efficiency of a worker would also depend on the efficiency of other factors of production -- in particular, managerial efficiency.

In summary, then, the various social benefits supposed to derive from raising minimum wages in Uganda or East Africa do not appear to stand up under close examination -- either theoretically or empirically. Whatever the social benefits, if any, they are unlikely to compensate for the social loss in terms of increasing unemployment and/or overall needs of economic

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[86] J. B. Knight, Earnings, p. 250.

[87] N. N. Franklin, "The Concept and Measurement of Minimum Living Standards," International Labor Review (April, 1967), pp. 271-298.

development.

It is, therefore, essential to consider the framework, content and scope of incomes policy as well as specific measures to deal with both urban and rural unemployment appropriate for an economy such as Uganda. This is the subject matter of the next chapter.

CHAPTER V

AN APPROACH TO INCOMES POLICY IN EAST AFRICA WITH SPECIAL REFERENCE TO UGANDA

A General Framework of Incomes Policy for East Africa

The first task towards the formulation of incomes policy for East Africa is to define some of the concepts or terms that are involved and to state clearly the assumptions or conditions on which the discussion of policy will be based.

Incomes policy in the context of East Africa would deal primarily with the wage policy of the government, since, as was indicated earlier, the government is the largest employer of all categories of paid labor and its policy determines the pattern of wages and salaries in the economy as a whole. Moreover, the emphasis on government wage and salary policy is justified because governments in East Africa, both before and after independence, have intervened in the determination of non-government labor earnings through arbitration tribunals. These tribunals have, in most cases, been guided by the pattern of wages and salaries in the civil service.

Incomes policy, as used in developed nations, was also concerned with non-wage incomes (profits, interest, rent) and prices. A concern with price movements was essential because the control of inflation has been the central objective. A concern with other incomes was necessary because of their close and casual relationship to the pattern of wages and salaries, which derives from the bargaining process between labor unions and private employers, and because of the need to have the incomes policy appear equitable and politically acceptable.

In the context of East Africa, very little consideration will be given to non-wage incomes and prices in the modern sector. Because of the non-market determination of wages, very little causal relationship exists with non-wage incomes in the private sector. Any concern with profits and interest should relate only to the government's fiscal and monetary policies which have artificially cheapened the price of capital and thus encouraged the use of capital intensive methods of production. Furthermore, inflationary pressure has not been a major problem in East Africa, so that incomes policy would not have an anti-inflationary objective or the control of modern sector prices, as is the case in developed nations.

However, incomes policy in East Africa must deal with the pattern of agricultural prices and incomes, since the majority of people in these countries earn their livelihood from agriculture. The relationship of these earnings to urban wages is the major factor influencing the rate of rural-urban migration and unemployment. In the past, taxes on agricultural exports and Marketing Boards pricing policies, coupled with general neglect of agricultural development, have helped to stimulate rural-urban migration and thus intensify the level and growth rate of urban unemployment. Thus, while wage, fiscal and monetary policies may succeed in creating urban employment, in the absence of price incentives and other policies to develop employment opportunities in agriculture, the net result may be in expansion of urban unemployment.

In short, incomes policy in East Africa would be different from that in developed nations in its objectives, contents and scope.

While the objective of incomes policy in East Africa is clearly the generation of employment in urban and rural areas, it must have clearly stated criteria to apply in pursuing this objective. The criteria must be derived from the broader policies of development, which in turn depend on the conditions prevailing in East Africa, the national priority given to the various objectives (maximization of output and/or employment, equitable distribution of income, etc.) and the strategy adopted in the pursuit of these objectives. The magnitude of the unemployment problem in East Africa is such that employment creation can no longer be ignored or given less priority than maximizing output. Given the general poverty of the East African economies, equitable distribution of income can best be achieved through expanding urban and rural employment opportunities instead of depending on the actual redistribution of non-wage incomes.

While employment and growth were recently accepted as important objectives of policy, there has been a tendency to view them as competitive so that one objective could not be achieved without some sacrifice in the other. It is here assumed that this conflict is more apparent than real, so that employment and output can both be expanded. The traditional belief in an unavoidable conflict is related to the belief that capital intensive techniques are essential to a rapid rate of growth and the conventional use of output per unit of labor input as the measure of efficiency. The assumption that both output and employment can be increased rests on the fact that a rapid growth rate could also be achieved through emphasis on labor intensive techniques of production, particularly in small-scale farming --

the most prevalent in East Africa.[88]

In the absence of adequate statistical data to evaluate the economic efficiency of peasant small-scale farms, the historical success of cotton and coffee production provide irrefutable evidence. The experiences of many countries, including Taiwan, Korea and Uganda, appear to show that small-scale labor intensive farms could be as efficient as large-scale capital intensive farms and have the advantage of requiring much less capital investment.[89] The choice of labor intensive technology should not be viewed as discounting the importance of investment, but meaning that minimizing capital investment and maximizing labor input in agriculture and industry should be the guiding principle of efficiency, development and incomes policy in a capital scarce society such as Uganda.

Having clarified the concept of incomes policy and the assumptions as well as conditions on which it would be based, it becomes necessary to specify the variables -- the level and structure of wages and the distribution of income -- it seeks to alter. This has been done in Chapter III above. On the basis of these variables and the concept of incomes policy thought to be appropriate for East African conditions, a set of propositions to define the general framework of incomes policy will be suggested on the basis of which specific policy recommendations would be advanced. These would include:

(a) The basic level of wages for unskilled and inexperienced workers

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[88] See Carl Eicher et al, Employment Generation in African Agriculture, Institute of International Agriculture, No. 9 (Michigan State University, East Lansing, Michigan, 1970), pp. 18-34.

[89] See Owens Edgar and Robert Shaw, Development Reconsidered (D. C. Heath and Co., London, 1972). This point will be elaborated below when employment generation in agriculture is considered.

in East Africa should not be an obstacle to expanding employment opportunities.

(b) To achieve (a), the unskilled wage rate should be fixed at a level that will provide a standard of living comparable to the unskilled labor in the subsistence and/or non-wage sector of the economy and not on some arbitrary criteria or "poverty datum line" as recommended by doctors, nutritionists, and so on.

(c) The wage and salary differential between different categories of workers should not be larger than is required to provide incentives for workers to acquire skill, to accept responsibility, and to make reasonable effort in their work.

(d) Proposition (c) implies that the wage and salary structure should favor employees with technical skill (e.g., doctors, agronomists, etc.) over administrative and/or political bureaucrats with formal education, but no demonstrable technical skill; that existing differentials favoring non-manual workers (typists, clerks, etc.) over manual workers (mechanics, electricians, etc.) on the basis of formal education attained should change in favor of the latter.

(e) If a particular firm or industry's capacity to pay wages appears to exceed the "minimum wage" criteria proposed in (b), the correct policy would be not to force it to pay wages and salaries much higher than the capacity of the economy or the industrial sector as a whole, but to tax the excess earnings. Otherwise, it would give rise to different minimum rates for the same work in different industries with a resultant danger of distortions in inter-industry wage structure and inefficient resource allocation. Moreover, it would be extremely difficult, particularly within the context of insufficient data and manpower in East Africa, to measure capacity to pay in each employing unit and allocate equitable weights to the various factors of production involved.

The above propositions should not imply that wages and salaries be rigidly fixed within and between firms or industries. They could and should be expected to rise over time, but roughly in line with the productivity or standard of living of the economy as a whole. In parts of the economy, however, wages may not rise at the same rate as productivity. This would not be undesirable if we consider that that increased proportion of the national income may have to be devoted to expanding investment, employment and growth.

Finally, any plan for incomes policy must have some clearly defined procedure or machinery of implementation. In the context of East Africa, where the government is the dominant employer, it would be expected of the government to pay its own workers wages and salaries on the basis of the criteria it wants followed in the economy as a whole. Moreover, the government must require labor arbitrators who it appoints to strictly follow the incomes policy guidelines with respect to the level and structure of wages. This would not be a major problem as long as the government itself behaved as indicated.

The officially sanctioned incomes policy should be widely publicized and publicly known if private employers are expected to implement it on their own. It would be unrealistic, however, to expect the government to publish detailed wage and salary structures applicable to all firms and all categories of employees, or to have representatives at each employing unit to watch over the observance of incomes policy criteria. Instead, it would be more practical and realistic to establish the rate for a few key occupations likely to be found throughout the wage sector -- for example, the rate for mechanics, clerks and unskilled factory workers, perhaps indicating in broad terms how experience is rewarded.

The last suggestion should not imply that a decentralized and sectional collective bargaining would be preferable in East Africa, if only broad guidelines were suggested by the government, but that the control and guidance must not be cumbersome and rigid from over-centralization. The actual machinery set up to administer the incomes policy plan should include representatives of employers and unions. Such representation should be extended at both the formulation and implementation stages of policy to achieve the maximum of cooperation. These suggestions are not peculiar to the East African economy.

The conditions in East Africa, as specified above, are different from those in developed nations. In particular, wage employees are only a small proportion of the total labor force. Hence, the scope of incomes policy in East Africa should be so comprehensive as to include prices, incomes and employment in the rural or non-wage sector. Consequently, the machinery of incomes policy should include representatives of farmers groups to make sure their interests are taken into account at both the planning and implementation stages. This would represent a significant historical departure from the usual process of decision-making and meet the peculiar needs and conditions of East Africa.

<u>Policies to Generate Non-Agricultural Employment</u>

The most important step towards increasing urban employment in Uganda, as in the rest of East Africa and other developing nations, would be an elimination of factor-price distortions -- i.e., the existence of too high wage rates and too low interest and foreign exchange rates despite the abundance of labor and the scarcity of capital. The rapid increase in unemployment, partly because of a decrease in those already employed, is a consequence to be expected when factor prices are kept away from their equilibrium levels for a long period of time.

Direct government action to, at a minimum, close the gap between official and market-clearing interest and foreign exchange rates will eliminate some of the windfalls which are received by preferred firms or industries in the non-agricultural sector and force them to economize more on scarce capital resources in their production plans. In the short run, there may not be that much room to move towards more labor intensive technologies and sectors, either because such technologies are not available or because existing industries or processes may already be labor intensive. But these difficulties themselves result from a general lack of research on labor-saving technologies, at least partly caused by prevailing factor-price distortions.

On the other hand, the rapid rise in wages and salaries observed in the past needs to be restrained. Governmental action to directly lower real wages for unskilled urban workers is virtually impossible given the political strength of organized labor. The most feasible approach would be to keep money wages from rising as fast as they did in the 1960's, and attempting to lower, or hold down the rise, in the cost of wage-goods (e.g., food and clothing) so that money wages relative to other factor prices do not increase.

The Ugandan Second Five Year Plan (1966-1970) introduced an incomes policy which called for a zero rise in incomes over £600 per annum, 1.0 percent per annum for the group £90-210, and 3.5 percent per annum wage increases for those earning less than £90.[90] This would constitute a significant improvement compared to the 10 to 15 percent per annum increase observed from the mid-1950's to mid-1960's. Such low increases in wages could be sustained if the corresponding rise in the cost of living is kept down sufficiently. The latter condition was not achieved in Uganda. By 1966, the government announced a significant shift to the "left" in national ideology and economic policies. The sudden rapid increase in government participation in economic affairs financed through borrowing from the Central Bank (in addition to rapid rise in taxes) led to a substantial increase in the cost of living index, especially for food and clothing.[91] Michael Tribe[92] maintains that this sharp rise in the cost of living led to labor union pressure for a reduction in taxes and an increase in the official minimum wage from 150/- to 250/- shillings per month. In 1970, the government appointed a Commission of Inquiry which, contrary to the wage restraint proposed in the Five Year Plan, recommended 185/-, 125/- and 104/- shillings per month minimum wages for workers in main towns, trading centers,

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[90]Ugandan Government, Work for Progress (Entebbe: Government Printer, 1966), p. 149.

[91]Ugandan Government, A Five Year Capital Development Plan, 1955-1960 (Entebbe: Government Printer, 1955).

[92]Michael Tribe, "Uganda 1971: An Economic Background," Mwazo, Vol. III, No. 1 (Kampala: Mekerere University, June 1971), p. 52.

and all other categories respectively.

In regard to the civil service, the government attempted to redefine the structure of salaries and rank so as to eliminate unwarranted differentials between different agencies. This was bitterly opposed and proved impossible to implement.[93] The civil servants were sceptical about the claim that there was a need to freeze and standardize salaries in the face of extravagant unbudgeted expenditures such as the OAU Conference Center, corruption and high living among ministers. The Tanzanian experiience with the problem should have indicated to the Ugandan Government that civil servants would not readily accept cutbacks in privileges if the political elite is not also made to do the same.

An alternative approach to encourage labor usage in industrial enterprises concerns the payment of a wage subsidy or a tax deduction of a wage write-off for investments made in more labor intensive methods. This should be expected to stimulate employment opportunities as the effective labor price to producers is reduced by the amount of the subsidy or tax write-off (a reasonably high and positive elasticity of labor is assumed). The weakness of such a policy relates to the fact that the actual earnings or wages paid are not reduced. The differential between urban wages and rural incomes are maintained. The resultant rural to urban migration of labor attracted by higher earnings and better employment opportunities could lead to a rise in the net urban unemployment. Thus, while a wage subsidy or tax write-off could expand the short run employment of labor, the indicated limitation suggests that these policies are not effective substitutes

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[93] *Ibid.*, pp. 48-49.

for policies that deal with the underlying causes of factor-price distortion.

The Ugandan government could attempt to create employment through an agreement or understanding between itself, private employers, and unions, whereby the government and private employers agree to raise the amount of labor they will hire in turn for a promise by unions to accept wage freezes for a specified period.

On the surface, the policy is appealing and simple. In practice, the contribution of tripartite agreements to the reduction of unemployment has not been significant. The experience of Kenya, where the policy has been tested, indicates that while employment has not been affected significantly, the level of urban unemployment has probably increased substantially as a result. D. P. Ghai, for instance, makes the following observation with respect to the 1964 tripartite agreement in Kenya:

> Owing to the financial stringency, the government found itself unable to carry out its pledge. In all, 34,000 jobs were found...But it is doubtful whether these represented a net increase in employment; for while many of the private firms adhered to the letter of the agreement by taking on employees, they violated its intent by not hiring new employees to make good the loss caused by normal attrition of the labor force. Furthermore, even if the agreement was successful in creating some new jobs, it did not make any particular impact on the level of urban unemployment, for prospects of wage employment stimulated an additional flow of migrants from rural areas.[94]

Like subsidy of tax write-off policies, tripartite agreements fail to deal with factor price distortions and rural-urban income differentials. It is only a short run (political?) expedient trying to deal with the

[94] D. P. Ghai, "Employment Performance, Prospects and Policies in Kenya," prepared for the Overseas Study Committee Conference (Cambridge University, 1970), quoted in M. P. Todaro, *op. cit.*, p. 399.

problem of urban unemployment by circumventing economic forces. In light of these facts, it is hard to see why the Kenyan Government had another tripartite agreement in 1970. It could only understood as another political gimmick to stem off urban discontent. If meaningful solutions are desired, the Ugandan Government must avoid tripartite agreements and their negative consequences for correcting unemployment.

Following the experience of Tanzania, Uganda might take measures to physically restrict the rural to urban migration of labor taking place in response to efforts (wage subsidies, tripartite agreements) to expand urban employment opportunities. The urban unemployed could be repatriated to farm settlements. The Tanzanian experience has shown that it is difficult to control labor migration to the level of urban job openings[95] as long as there is an incentive to migrate. Effective control of migrants would require large expenditures to maintain adequate enforcement manpower. Moreover, potential migrants, particularly young school-leavers, may revolt against sustained restriction on their freedom to migrate in search of better opportunities.

More policy alternatives to generate urban employment opportunities can be advanced. The few that are evaluated above are, however, sufficient to indicate that ad hoc measures to expand urban employment are not substitutes for correcting the underlying factor-price distortions and rural-urban earning differentials as effective solutions to control unemployment. This is particularly true in a country like Uganda where the narrow urban base, even under normal circumstances, could not be expected

[95] M. P. Todaro, _op. cit._, p. 401.

to absorb more than a very small percentage of the total labor force.

The last point raises a very important fact. That is, while urban-oriented incomes policies are necessary in Uganda, policies to directly stimulate agricultural growth and employment opportunities remain an overriding consideration. In the final analysis, a predominantly agricultural economy must create most of the opportunities for employment and decent living in that sector. In this case, the concept of incomes policy must be broad enough to include a system of rural incentives to absorb the rising labor force. What follows is a treatment of this issue.

Agricultural Development Policies and the Generation of Employment

Needed Reassessment of Development Policy

The analysis in Chapter II has already shown that Uganda must make a fundamental reassessment of past development policies and/or strategies in such a way that the agricultural sector can contribute more effectively to national product and employment. While no argument was made against industrialization as a long term approach to diversify the structure of the Ugandan economy and reduce its dependence on exports of primary commodities, it was argued that basic short or medium term problems -- primarily rising unemployment -- could not be effectively handled by a policy of hasty or premature "industrial fundamentalism." Various urban-oriented policies were shown to, in fact, accentuate the rate of growth of urban unemployment unless national development policy puts proper emphasis on the development of the agricultural sector so as to maximize the income earning and employment opportunities of the overwhelming majority of the population who happen to reside and make their living in the countryside.

In recent years, there has been a general agreement to assign agriculture the major task of job creation in East Africa. Too often, however, this view is put forward by planners and politicians without proper and necessary modifications of theoretical assumptions underlying national planning and the governmental decision-making process. While the objective of agricultural development may have actually been implemented in East Africa, failure to reassess the theoretical basis of planning or developmental strategy and policy has very often led to stagnation of agricultural output and employment; or, where output may have been successfully expanded, it was achieved without corresponding expansion in rural employment opportunities.

In the past, when the tendency was to look at the agricultural sector in terms of extracting surplus resources for industrial investment, there has been a bias towards mechanized or capital-intensive agriculture. Implicit in the choice of this planning strategy was the belief that small-scale peasant farms are inherently unsuitable for the purpose of maximizing agricultural productivity, and thus providing the marketable surplus for rapid industrial investment and growth. A more detailed review of specific anti-employment measures undertaken to develop agriculture in the post-World War II period and needed modifications in these measures in light of the growing problem of unemployment will be provided below, with a particular reference to Uganda. At this point, it is important and desirable to evaluate the theoretical and empirical validity of the proposition that with respect to expanding agricultural output, small-scale farms are relatively inefficient compared to large-scale, mechanized, or capital intensive ones. Such an evaluation is crucial, since if the proposition were true it would suggest a basic conflict in the objectives of maximizing agricultural output and employment opportunities. Hence, the hope of assigning to agriculture the major task of job creation would be undermined.

In the United States and some other major industrial nations, where capital and organizational talent has been abundant relative to labor, rapid growth in agricultural productivity has been achieved through intensive mechanization of farms. The assumption that the pattern of development in these countries would be repeated in the now less developed nations explains the bias to capital intensive agriculture in the latter, despite the prevailing factor scarcity of capital relative to labor. This assumption has been contradicted by empirical evidence derived from the developmental experience of such "labor-surplus" economies as Japan, Taiwan, and South Korea.

Japan, Taiwan and South Korea were reported to have had 87, 79 and 79 workers per 100 acres in 1965, compared to India, the Philippines, Ceylon, Colombia, and Brazil, which had 36, 29, 49, 20 and 17 workers respectively per 100 acres during the same period.[96] Yet Japan, Taiwan and South Korea were among the most productive nations in Asia and the world. The reasons for achieving high productivity despite the relative intensity of labor are to be found in the improved varieties, fertilizers, and improved implements used to augment human labor rather than displacing it (e.g., implements to break seasonal bottlenecks).[97]

[96] FAO, Production Yearbook, 1969 (various tables).

[97] B. F. Johnston, "Agriculture and Economic Development: The Relevance of Japanese Experience," Food Research Institute Studies 6, No. 3 (Stanford University, 1966), p. 288.

In the past, experts, planners, and politicians have been inclined to the view that small peasant farmers in East Africa do not provide a basis for productive investment partly because their farms are too small. Implicit in this belief was the contention that a small farmer would not be able to take advantage of economies of scale and that the cost of investing in each of the numerous small holdings would be higher than the expected benefits. Consequently, the huge subsistence sector such as that of Uganda has been neglected, while agricultural investment tended to be concentrated in the development of large-scale commercial farms where big machinery (e.g., tractors) was thought to raise output or productivity per worker. The alternative possibility of raising the productivity of small peasant farms through labor intensive techniques of production, following the experience of Japan, Taiwan, and South Korea, did not receive adequate attention from planners and policy makers in East Africa.

In addition to the mistake of assuming that a higher density of workers would necessarily imply lower productivity in agriculture, extensive research carried out in the past decade tended to show that output per worker could be generally higher on small farms than on larger ones.[98] Moreover, investment costs per dollar of market sales have been shown to be lower in Mexico for small farms than for large ones.[99]

The above citations tend to confirm that labor intensive small-scale farms could in fact be more efficient units of agricultural development in

[98]For example, see Lester Schmid, Relation of Size of Farm to Productivity (Land Tenure Center, University of Wisconsin, 1969).

[99]Folke Dovring, "Land Reform in Mexico," Spring Review of Land Reform (AID, Washington, D.C., 1970), pp. 44-48 and 50-54.

Uganda or East Africa with respect to both output and employment maximization objectives. Due to the relative inadequacy of statistical data, it is much more difficult to conduct similar studies for East Africa. The impact of crop intensification on the employment capacity of small-scale agriculture has, therefore, not been fully documented. The few studies that are available, however, tend to support that a more intensive farming of existing small holdings results in the most employment and supports the largest number of persons (including dependents) per unit of land at a comparably low cost. For example, a recent study by Clayton[100] shows that intensive farming of existing small holdings in Nyeri District of Kenya (at about the mid-1960's) created about 10,000 new employment opportunities, providing about 1,072 persons with employment and supporting 2,906 persons per 1,000 hectares, at an estimated cost of 1,000 shillings per hectare. This compares with 116 persons employed per 1,000 hectares at an estimated cost of 760 shillings per hectare on large-scale African farms. The study also indicates that the Mwea irrigation scheme -- a land extensification scheme -- provided employment for 2,807 persons and supported 4,529 persons per 1,000 hectares, but at a cost of 7,160 shillings per hectare. Thus, the most effective policy -- with regard to rural employment generation at minimum cost per unit of employment -- appears to be an intensive farming of existing small-scale farms. This policy has the added advantage, particularly in Uganda, of requiring a minimum of institutional and structural adjustments, since most of the people are already in small-scale farming. These conclusions are supported by a more general and qualitative study

[100] E. S. Clayton, "Agricultural Reform, Agricultural Planning and Employment in Kenya," International Labor Review, November 1970.

by Eicher and others.[101]

While it is reasonable to assume that employment in small-scale agriculture would keep pace with growth in output, there is evidence to show that this has not been the case with employment in plantation agriculture. A report of an ILO mission to Kenya[102] -- where plantation agriculture has historically been more prevalent than in the other East African countries -- indicates that over the period 1963-1969 there was a marked reduction in the number of permanent workers employed by coffee and sisal estates. Employment in coffee estates was shown to have declined from an estimated 100,000 persons in 1964 to 80,000 persons in 1969. In sisal estates, employment dropped from 25,000 to 12,000 over the same period. In comparison, employment on tea estates rose from 34,000 to 37,000 persons.

In general, the observed stagnation of employment in plantations or estates, while output has expanded significantly, was because technology has been in use which is both labor saving and output increasing. For some estates such as sisal, the rate of decline in labor employment has been shown to exceed the rate of decline in output primarily because many such estates have ceased replanting while continuing to harvest existing stock.

While small-scale farming, with appropriate land and technology policies, offers the best hope of meeting the goals of expanded output and employment in East Africa, the key to its success will rest on the nature

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[101] Carl Eicher _et al_, _op_. _cit_., especially pp. 18-34.

[102] P. S. Narasimhan, _Kenya: Conditions of Work and Life in Plantations, Report of an ILO Mission_ (mimeographed, May 1969).

of agricultural price and taxation policies. Eicher and others[103] have shown a historical tendency in many African countries, including East Africa, to reduce the price of export crops to the grower below world market levels and to raise the price of food crops above world market prices. Taxes on export crops have been an administratively easy way of raising revenue, while the conventional strategy for agriculture has been to aim at self-sufficiency in food production. Neither price movement is conducive to employment. On the one hand, expensive food encourages wage demands and hence substitution of capital for labor. Taxes on export crops discourage their production with a resultant negative impact on employment.

In the past, pricing policy has tended to assume, perhaps implicitly, that peasant farmers are unresponsive to price and other market incentives. Export taxes and Marketing Board surpluses have been used to transfer resources from agriculture for the financing of industrial development. This seems to suggest that peasant farmers are relatively more inclined to consume savings instead of utilizing them for investment, or that the government is better suited to make investment decisions than peasant farmers themselves.

Perhaps the best available evidence to contradict such a view regarding peasant behavior is the historical success of peasant farmers in East Africa in effectively adapting to the production of cash crops such as coffee and cotton. Furthermore, the few empirical studies available tend to support the fact that peasant farmers in East Africa respond positively

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[103] Carl Eicher _et al_, _op_. _cit_., pp. 27-30.

to market incentives.[104] Much more research needs to be done in this area. Nevertheless, in the face of uncertainty, the best policy is to avoid price distortions and let market signals reflect the true scarcities so that individual decision-makers can choose whatever strategy of agricultural development best suits their interests. The role of the government would then be limited to policies designed to offset some specific problems of development -- for example, the provision of infrastructure and credit.

Another aspect of pricing policy related to agriculture is the proper pricing of agricultural inputs. Domestic production of inputs such as fertilizers, implements, and so on (which are complementary to the input of labor in agriculture), under a policy-protected domestic market, would result in unnecessarily high input prices. This would discourage production and employment. The right policy would appear to be that which will reduce the effective price paid by peasant farmers for inputs complementary to labor either through the encouragement of imports or subsidy.

In fact, the bias towards mechanized farms in the past has given rise to artificially low prices paid by the farmer for imported machinery. This was achieved either through low import duties or subsidized tractor-hire services or both. The availability of foreign tied-loans has aided large scale imports of machinery which would have been impossible given the meager foreign exchange balances at the disposal of East African governments. In this regard, the reassessment of developmental policy and strategy would also require a reassessment of conventional foreign loan and/or aid terms.

[104] See, for example, J. K. Maitha, "Productivity Response to Price: A Case Study of Kenya Coffee," East African Economic Review, Vol. II, No. 2 (December 1969), pp. 31-37.

The above analysis on reassessment of agricultural development policy to achieve the goals of expanded output and employment has been rather general and depends heavily on non-Ugandan or East African experiences, where the better availability of data and/or better awareness of the issue has permitted more extensive research. While the general analysis of the East African situation that is presented is a significant step in the understanding of the overall problem, the formulation of specific measures or policies applicable to expanding agricultural output and employment in a country like Uganda in the coming decades would require a more extensive collection of data so that the consequences of alternative policy options could be tentatively projected into the future.

In this connection, Uganda or the East African countries would benefit greatly from recent studies and projections made with respect to Nigerian agriculture, where much more data and agricultural surveys appear to be available. These Nigerian studies[105] tend to support the general conclusions indicated above: that policies and programs which provide incentives to agricultural producers while supporting them with infrastructure, research and modernizing services, offer the best alternative strategy for expanding agricultural output and employment opportunities.

The Denial of Employment Generation: The Ugandan Case

This section will review Ugandan development policies in the past inasmuch as they represented a denial of employment generation in

[105]See, for instance, Consortium for the Study of Nigerian Rural Development, Preliminary Strategies and Recommendations for Nigerian Rural Development (Michigan State University, East Lansing, Michigan, July 22, 1968).

agriculture. First, the historical tendency in Uganda towards a policy of mechanized group farms will be delineated. Second, the implications of export taxes on agricultural commodities and Marketing Board surpluses for the generation of employment in agriculture will be considered in some detail.

The Historical Trend towards Mechanization of Farms

The 1947-1956 Worthington Plan and its revision in 1948,[106] the first real attempt at development planning in Uganda, correctly viewed the development of peasant agriculture as crucial for growth in national output. Yet the fact that the agricultural sector was allocated about 10 percent of the total planned expenditure[107] indicates the lack of faith in expanding national output (the objective of the plan) through investment in peasant agriculture. While the Plan proposed essential schemes such as the control of tsetse fly and livestock disease, forestry expansion and increased water supply to bring more land into cultivation, it also suggested pilot schemes to test the viability of state or collective farms -- thus introducing an approach conducive for mechanization and which, as will be evident below, was to become the major factor influencing planning strategy in Uganda throughout the 1960's.

The Worthington Plan was followed by a Five Year Development Plan[108] (1955-1960) which concentrated on capital expenditure. While the Plan envisaged the raising of a large part of the financing from internal and

[106] E. B. Worthington, A Development Plan for Uganda and the 1948 Revision of the Plan (Entebbe: Government Press, 1949).

[107] Ibid., p. 11.

[108] Uganda Government, A Five Year Capital Development Plan, 1955-60 (Entebbe: Government Press, 1955).

external loans (about 43 percent of the total required resources), the agricultural sector was expected to provide about 44 percent of the resources -- about equally from export duties and Development Assistance funds, diverted from the Cotton Price Assistance Fund. Yet, of the total planned expenditure, only about 5 percent was allocated to the agricultural sector.[109] As before, pilot programs of mechanized farms continued.

The process of development planning in Uganda took a major step forward with the introduction of the 1961/62-1965/66 Plan.[110] In contrast to earlier plans, this was more comprehensive in that it embraced the public, parastatal corporations and the private sector of the economy.

The plan was based on the recommendations made by the World Bank Mission Report in 1961.[111] The report had recognized the primary role of agriculture in the development of Uganda. In fact, it did not see great prospects for industrialization. Regarding policy, the Report suggested aiding progressive farmers through subsidies, credit schemes, extension services, training and research. While the Mission said: "We foresee no great advantages from mechanization of production on peasant farms for some years,"[112] it nonetheless recommended mechanization on an experimental basis just as the Worthington Plan had proposed earlier.

In contrast to the Mission Report which had suggested diversification

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[109] Ibid., The First Revision, Sessional Paper No. 13 (1956-57), p. 58.

[110] Uganda Government, The First Five Year Development Plan, 1961/62-1965/66 (Entebbe: Government Press, 1963).

[111] IBRD, The Economic Development of Uganda (Baltimore: Johns Hopkins Press, 1962).

[112] Ibid.

of exports through expanding outputs of cotton and livestock, the government of Uganda aimed at achieving diversification through an expanded manufacturing sector. While planned allocation for agriculture was greater than the Mission proposal, the Five Year Plan made a major shift to large scale agriculture, whereby a considerable increase in tractor-hire services and group farming were proposed. In fact, at the end of the Plan period, actual expenditure on mechanization and group farming were greater than planned.

The results of mechanization and group farming were considered a major failure in terms of both profitability and the generation of employment.[113] On both grounds, one would have expected less reliance on mechanization and group farms in the next or Second Five Year Plan (S5YP).[114]

Yet the S5YP proposed establishing 100 more group farms and expanded tractor-hire services. Despite the indicated poor results, the government argued that mechanization "...be made available to as many farmers as possible."[115] The decision, as David Vail[116] indicates, was made primarily on the political ground of creating a united "socialist state". But it is hard to see how an economically non-viable proposition could have led to a more desirable society -- by whatever criteria desirability is judged. On the contrary, the failure to generate rural employment would lead to

[113] Hall Mattrick, Aid In Uganda--Agriculture (London: The Overseas Development Institute Ltd., 1967).

[114] Uganda Government, *op. cit.*, p. 48

[115] *Ibid.*, p. 59.

[116] David Vail, Group Farming and Statecraft in Uganda, Development Research Project No. 71 (Kampala, Mekerere Institute of Social Research, December 11, 1968), p. 9.

expanding urban unemployment. This would involve a waste of human resources as well as potential political instability.

The Impact of Export Taxes and Marketing Board Surpluses on Employment

The development of a simple production function model will facilitate an analysis of the effects of export taxes on agricultural crops and/or Marketing Board surpluses on the generation of rural employment opportunities. Let Y represent output of cotton or coffee exported by Uganda and X_1 represent input of labor in the production of the export crop, cotton or coffee. A particular farm could be represented by a simple production function given as,

$$(1) \qquad Y = f[X_1 | X_2, X_3, \ldots, X_n]$$

where X_i $(i=2,\ldots,n)$ are inputs of factors other than labor and assumed constant. The marginal physical product per unit of labor input X_1, $(MPP)_{x_1}$, may be given as,

$$(2) \qquad (MPP)_{x_1} = \frac{dY}{dX_1}$$

where $(MPP)_{x_1}$ is the marginal physical product of labor, the variable input.

Assuming the existence of competitive markets, the marginal value product of labor $(MVP)_{x_1}$ may be given as,

$$(3) \qquad (MVP)_{x_1} = P_y \cdot \frac{dY}{dX_1}$$

where P_y is the world market price of the export crop, cotton or coffee.

For a farm having a production function represented by equation (1), the profit maximizing point can be determined by equating the marginal value product of labor, the variable input, to the price of labor (Px_1) or wage rate (W). That is:

$$(4) \qquad P_y \frac{dY}{dx_1} = P_{x_1} = W$$

where $P_{x_1} = W$ is assumed given. The relationship between $(MVP)_{x_1}$ and $P_{x_1} = W$ is depicted in Figure 2, where the profit maximizing farm is shown to employ X_1^o amount of labor.

The Ugandan government, like some other ex-colonial countries in Africa, withdraws a portion of rural or peasant incomes through the imposition of export taxes and/or the accumulation of Marketing Board surpluses. The administrative cost of these Boards adds to the withdrawal of resources from the rural sector. Consequently, the prices actually received by farmers would be less than the world market prices for the export crops. Let the rate of withdrawal be represented by t_y so that the price received by the farmer is given as,

$$(5) \qquad (1 - t_y)P_y = \beta P_y$$

where $0 < t_y < 1$ and $\beta < 1$.

1 If the farmer had been subsidized per unit of labor input, the actual price or wage paid by the farmer could be given as,

$$(6) \qquad (1 - s_{x_1})P_{x_1} = (1 - s_{x_1})W = \gamma W$$

where s_{x_1} is the rate of subsidy per unit of labor input and $0 < s_{x_1} < 1$ so that $\gamma < 1$.

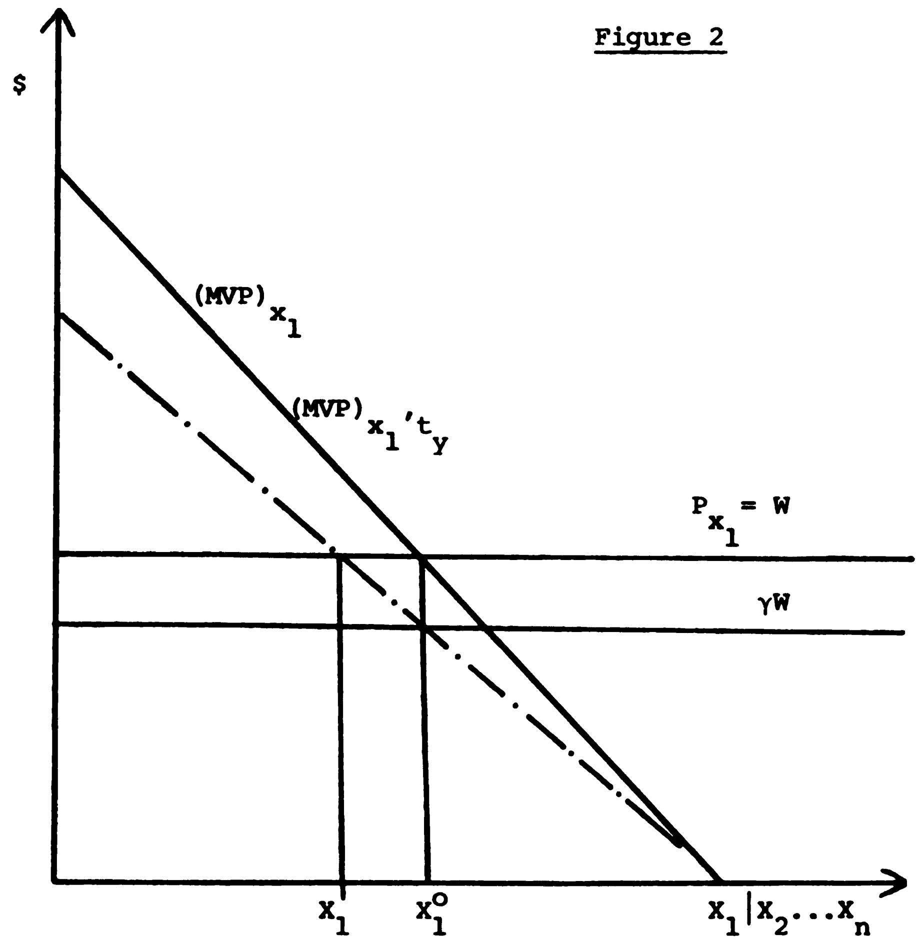

Fig. The relationship between marginal value product and price (i.e., wage) of the variable input labor (X_1).

The profit maximizing condition given by equation (4) could be easily altered to accommodate the introduction of export taxes, the accumulation of Marketing Board surpluses and subsidy per unit of labor input so that,

$$(7) \qquad (MVP)_{x_1,t_y} = \beta P_y \frac{dY}{dx_1} = \gamma W$$

Equation (7) shows that the profit maximizing farmer will expand the employment of labor up to the point where the marginal value product after taxes and/or Marketing Board surpluses equals the purchase price of a unit of labor less subsidy received.

Since $0 < \beta < 1$, the marginal value product after export taxes and/or Marketing Board surpluses, $(MVP)_{x_1,t_y}$, would be less than the marginal value product in the absence of taxes and/or surpluses. In Figure 2, this is represented by a downward shift of the marginal value product curve so that, in the absence of labor subsidy, the profit maximizing farmer will reduce the amount of labor employed from OX_1^o to OX_1'. The figure also shows that if, after subsidy, the actual cost of labor per unit employed is reduced from W to γW, the original level of employment, OX_1^o, is maintained. This is a case where the amount of the sbusidy was just sufficient to compensate for the total distortion in the allocation of resources caused by the presence of taxes and/or Marketing Board surpluses. In reality, the amount of labor employed would depend on the relative weight of the taxes and/or Board surpluses and subsidy -- that is, on whether or not $\frac{\gamma}{\beta} \gtreqless 1$, so that the new employment equilibrium could be $\gtreqless OX_1^o$.

The existing (and past) policies in Uganda contain no subsidy for the input of labor. The prevalence of export duties[117] and/or Marketing Board surpluses would, therefore, have the effect of reducing the amount of labor already employed in the production of export crops or keeping a higher level of potential employment from being realized. This would contribute towards the rural to urban migration of labor. The rate of migration would be particularly high in a country such as Uganda where the gap between the potential off-farm earnings (represented by urban minimum wages) and on-farm earnings from family farms or paid agricultural work is significant.

In light of the suggested reassessments of development policy and the distortions in resource allocations created by mechanization or export duties and/or Marketing Board surpluses, the following specific recommendations could be advanced as appropriate for Uganda and East Africa.

(a) A set of agricultural price and production policies should be established, to provide incentives to farmers to produce and employ more than they did in the past. This will require a gradual elimination of export duties and Marketing Board surpluses.

(b) If the need for revenue makes the elimination of export duties

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[117] The Uganda Government, Statistical Abstract (Entebbe: Government Printer, various issues) does not provide the revenue from export duties and the total value of exports for the same period. For instance, while the export duty related to the 1961-62 and 1962-63 period, the total value of exports was given for 1961, 1962 and 1963. The same was true for other periods. In some years the value of export duty was shown separately for cotton, coffee, hides and skins, and copper. In others, it appears as an aggregate figure. A rough calculation of export duties as a percentage of the total value of exports indicate: 7 and 4 percent for cotton and coffee during 1961-62; 20 and 8 percent during 1962-63, or 14 and 11 percent respectively during 1966-67. Granting some error in these percentages, it is clear that when other income taxes, Marketing Board surpluses, and so on, are added to the export duties, the total withdrawal of income from the rural sector would be significantly higher than the percentages indicated above.

and/or Marketing Board surpluses difficult or impossible, the distortions in the actual or potential employment of labor in the rural sector could be at least partially minimized by the introduction of labor subsidy and/or urban wage restraint. Both should be expected to increase rural employment and the incentive for rural to urban migration.

(c) Eliminate factor price-distortions in the agricultural sector by dropping such policies as subsidized tractor-hire services.

(d) Government intervention in the rural sector should concentrate more on the provision of basic services such as feeder roads, water supply, and/or credits so that peasant farming can become more profitable.

(e) Inasmuch as land is a factor complementary to labor, the distribution of unutilized government land to those who need it, free or at subsidized prices, is likely to lead to more employment of rural labor. Factors other than land and labor (e.g., fertilizer) could also be subsidized. The potential to expand output and employment would, however, depend on the extent to which the subsidized inputs contribute to value added in agricultural production. Since the share of labor and land in value added are significant in Ugandan agriculture, a subsidy on these inputs would have the most potential for the generation of rural employment.

CHAPTER VI

POLITICS AND RATIONAL DECISION-MAKING: THE EXPERIENCE OF UGANDA DURING THE 1960'S

In what follows we will discuss a question that has come to occupy an important, though seldom explicitly expressed, position in the whole developmental issue relating to East Africa in general and Uganda in particular. Simply stated, the question is whether the idealized development process, reflected in academic models and emulated by published national economic development plans in Uganda and the rest of East Africa, correctly reflects the process of economic decision-making.

It is common knowledge that the East African countries, in common with most developing nations, have set out in five year plans fundamental objectives of development -- to raise incomes, to raise employment, to raise the level of education and training, to achieve a more egalitarian society, and so on. A quick look at the Ugandan development plans during the 1960's will support this. On the surface, at least, the political disposition of Uganda and other developing nations indicates basic commitment and urgency towards fulfillment of the objectives set out in national plans. For example, it is not uncommon for these countries to have separate and prestigious ministries of planning and development, staffed with local and foreign experts, and very often placed directly under the office of the prime minister or head of state.

But does the actual process of decision-making on matters related to specific issues (as contrasted to overall plans), employment, investment, balance of payment, agricultural price and rural development, reflect the development process as idealized in development plans? It has been demonstrated in previous chapters that this is not necessarily so. We have shown that the actual incomes policy (defined as wage and agricultural incomes and price policy) in Uganda during the 1960's has not been consistent with the stated objectives of development -- increasing the incomes and employment opportunities of the majority of the people as well as a more egalitarian distribution of these incomes and opportunities. Moreover, the educational structure continued to put emphasis on formal rather than technical education despite the fact that Africanization of technical jobs has been the stated objective.

The government, explicitly and implicitly, created a climate not conducive to the effective participation of foreign private investment; yet such investments are crucial in a society where capital is an extremely scarce factor. Rural poverty and lack of jobs, in addition to better urban wages and social services, was causing mass migration of people into urban areas. Given the narrow urban base in Uganda, as in the rest of East Africa, the consequence was mass unemployment. Yet the government continued to give relatively low priority to the rural sector in the allocation of public expenditure. Where expenditure was made on the rural sector, it was on capital intensive projects such as group or collective farms and contrary to the factor endowment of the rural sector. Instead of providing market incentives to stimulate peasant producers, farmers were penalized through significant export taxes and Marketing Board surpluses.

In the previous chapters, we analyzed the problem of unemployment in Uganda which was developing throughout the 1960's. We suggested incomes policies to alleviate the problem. It is naive to assume that the government was not aware of the magnitude of the problem and the appropriate and effective remedies suggested earlier. Various studies cited in this paper indicate that economic advisors and independent researchers were voicing the seriousness of the unemployment and other economic problems in East African journals, or foreign publications easily available to policymakers in East Africa. Thus, the inconsistency between stated objectives and actual behavior of policymakers must be explained by forces outside normal economic analysis.

It is the contention of this writer that over-riding political considerations throughout the 1960's were not conducive to rational economic policy. In what follows we will review internal political evolution in Uganda since independence in 1962 and demonstrate the motives that precluded rational decision-making.

Uganda approached independence with a vigorously competitive party system. There were the Uganda Peoples Congress (UPC), the Democratic Party (DP), and the Buganda Kabaka Yekka (YK). None had or hoped to have a clear majority to assume executive power after independence. Membership in each party was strongly motivated by tribal and religious considerations. In particular, the YK party was formed around loyalty to the traditional king of the Buganda tribe, the most numerous and dominant group in Uganda.

The Bugandans, in addition to being intensely tribal, were the richest and the most educated group. Hence, they were hostile to the possibility of the other tribes uniting into a mass party, for fear of losing their traditional autonomy and their favored position in the administrative and economic structure of Uganda. This explains why the YK party, which won 21 parliamentary seats, was willing just before independence to join the UPC, which won 37 seats, in coalition against the DP party (24 seats). Mr. Obote, the leader of the UPC party, became the prime minister, and the King of Buganda, the effective leader of the YK party, became the president.

Once he became the chief executive of independent Uganda, Obote immediately set out to alter the precarious political relationship between the UPC and the YK. His objective was to secure a clear parliamentary majority. His tactics were to encourage YK party parliamentarians -- his allies in a coalition government -- to defect to the UPC and to aggressively confront the UPC party and its platform throughout the regions other than Buganda.

To appeal to the various tribal and religious groups in these regions, each with its set of issues and demands, the UPC tended to adopt an essentially ad hoc and non-ideological platform. In the allocation of recurrent and development funds, patronage was extensively practiced by the UPC through its dominant position in the government. In 1964, with many members of Obote's opposition crossing the floor, he was able to bring the precarious UPC-YK alliance to an end.

The next two years, 1964 to 1966, was a period of uncertainty, during which the DP and YK parties attacked not only Obote but also the top officer of the army at that time, Colonel Amin. With the army apparently on his side, Obote was able (in 1966) to imprison a few ministers, suspend the constitution, and appoint himself President of Uganda. The Buganda traditional assembly (the Lukiko) countered by demanding that the Obote government remove itself from the autonomous Kingdom of Buganda. When the national army, led by Deputy Commander Amin, stormed the Bugandan King's (the Kabaka) palace in May of 1966 and forced him into exile, Obote's dictatorship was complete. Uganda, though divided into hostile camps on religious, tribal, ethnic, regional and other issues, was declared a unitary one-party state.

The period from 1962 to 1966, characterized by extreme political instability, could hardly have provided the socio-political infrastructure necessary for rational economic decision-making with respect to Uganda's underlying economic problems of employment, rural development, investment, and so on.

The decisions to expand minimum wages for urban unskilled workers, to expand group farming utilizing a cooperative institutional structure and stressing mechanization, to maintain the paternalistic and colonial structure of marketing agricultural crops through a State Marketing Board or monopoly, etc., were motivated by political and economic considerations. These decisions must be seen as part of the partisan competition between Obote's UPC and the opposition groups for rural support, and as a means of eroding citizens' traditional loyalties. Group farming and cooperatives provided the medium for the UPC to expand its rural party cells. UPC candidates could promise capital for mechanization and the private pockets of rural leaders if only they supported the Obote regime through the activities of group farms and cooperatives. Not only were these policies uneconomic,as we have shown earlier, but they also ran counter to the sentiments and historical patterns of farming family plots in Uganda. This may explain why individual family plots were maintained on the group farms.[118]

Uganda demonstrates the conditions which prevailed in most of the African countries for some time following independence. The economic objectives of the state, which required rational solutions to prevailing economic problems, were in conflict with the political imperative of building a nation state under the firm control of whoever happened to assume power at independence. In a one-party state, where diverse groups exist, to attain and reinforce power through solidarity becomes the overriding goal, in contrast to rational economic decisions arrived at after serious debate of the issues. Though the attainment of ultimate social goals and economic development were stated in official plans and documents, short-run and non-economic considerations were paramount. Under these conditions, National Plans tended to become instruments for legitimizing the ruling parties' statebuilding activities.

In the case of Uganda, urban employees and rural farmers were vulnerable to exploitation for short-run political ends. Despite evidence showing the unsuitability of group farms and urban minimum wages against prevailing conditions of excess supply of labor and the long run developmental goals of Uganda, they were rationalized and exalted by political leaders.

Since 1966, once political consolidation was seemingly achieved, the Ugandan government began to sharply increase its involvement in economic affairs, culminating in 1969 with an official declaration of a

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[118] Aaron Segal, "The Politics of Land in East Africa," Economic Development and Cultural Change, Vol. XVI, No. 2 (January 1968), pp. 283-84.

"Move to the Left," part of which provided "The Common Man's Charter"[119] -- an ideological framework of Uganda's new political culture. This was an imitation of Tanzania's declaration at Arusha a few years previously. The charter called for the eradication of tribalism, economic equality, decline in social privilege, welfare for the peasantry, and national unity. These objectives were, in themselves, perhaps desirable. But as we will show below, the means used to attain these goals -- partly motivated by political considerations as in earlier years -- were largely counterproductive in coming to grips with the problems of employment and growth in general.

Proceeding step by step, the government passed legislation and issued proclamations to implement the "Move to the Left." In a May 1970 Labor Day Speech, Obote announced the government's intention to acquire 60 percent of the ownership of over 80 major industries, including banks, insurance companies, manufacturing firms, transport companies, and so on. Compensation was to be paid on future profits over a period not exceeding 15 years.[120] Furthermore, exports and imports were to be a state monopoly. In short, Obote's "Move to the Left" implied the belief that consolidation of Uganda's independence (meaning his political control) required economic independence from foreign economic and financial dominance. Foreign included Ugandan Asians who had been in Uganda all their lives.

In addition to Bugandans who, as one would expect, interpreted the "Move to the Left" as an attempt to weaken their dominant economic position,

[119] A. Milton Obote, "The Common Man's Charter," one of four documents in Uganda's Move to the Left (Entebbe: Government Printer, 1969).

[120] Selwyn Douglas Ryan, "Balance Sheet of the Revolution," Mwazo, Vol. III, No. 1 (June, 1967), pp. 37-64.

Obote's policies alienated European and Asian industrialists and traders. Thus, not only did political instability and internal opposition intensify, but a significant reduction in the inflow of foreign private capital resulted, as well as a sharp increase in the outflow of domestic foreign capital. In addition to increased imports of machinery for group farms, the net capital outflow created serious strain in the balance of international payments.

Moreover, the "Move to the Left," involving a tremendous increase of government participation in economic affairs, effected a rapid rise in budgetary deficits. Taxes and internal borrowing -- primarily from the Central Bank -- rose sharply, at the expense of funds available for private investors. Though there was no significant inflationary pressure apparent for the economy as a whole, the Kampala cost of living index rose by about 6-1/2, 9-1/2, and 18-1/2 percent, respectively, for high, middle and low incomes earners over the period 1968-1970. In particular, food and clothing prices were reported to have increased dramatically.[121] Thus, price movements in Uganda towards the end of the 1960's had a regressive effect on distribution of real income. As a result, pressure for higher minimum wages, the major factor in explaining rising unemployment, was intensified.[122]

The internal political and economic conditions came to closely resemble what it was in Ghana before the overthrow of President Nkrumah by the army. Obote must have been aware of this similarity for he became increasingly suspicious of the intentions of his own army. Consequently, Obote

[121] Michael Tribe, *op. cit.*, pp. 19-21.

[122] *Ibid.*, p. 20.

appointed separate commanders for the army and the air force, in addition to creating a special security force under the direct control of his office.[123]

The dynamics of problem-ridden Uganda at the dawn of independence would have required mature leadership, interested less in the perpetuation of its own power and more in gradual introduction of policies to contain the fear and uncertainty displayed by the diverse tribal and economic interest groups. Decisive and constructive solutions to the problem of the Asian minority, and the confidence of the private entrepreneurs in general, were required. Instead, these internal conflicts were intensified. Obote's tactics achieved neither the conditions for a stable nation nor the framework for rational economic policies. An unpopular and insecure political leader, Obote could not legislate policies (e.g., wage restraint) demanded by the prevailing problems, but unpopular among politically powerful and affected groups. Sooner or later the mounting economic problems and political dissatisfaction would provide an excuse for opportunistic military groups to assume political power. It has happened in other African nations and it happened in Uganda in January 1971.

As one would expect, the new military government announced that increased taxes, the lack of confidence of foreign investors following the declaration of the "Move to the Left," urban and rural unemployment, and political imprisonment, etc., were among the major factors motivating the overthrow of Obote.

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[123] J. H. Mittelman, "The Anatomy of a Coup: Uganda, 1971," Journal of Indian Council for Africa, Vol. XI, No. 3 (Oct.-Dec., 1971), pp. 184-202.

Subsequent events in Uganda demonstrated what has been true in most other countries of Africa: that a military government which has to depend on the same coercive political tactics followed by the regime it overthrew is often incapable of bringing about the fundamental reforms in the socio-political structures that are essential for successful economic development. Very often, as happened in Uganda, the internal situation worsens, making the successful elimination of problems like unemployment even more difficult. We will not go into the analysis of the policies of the military regime in Uganda. Our objective was to demonstrate that President Obote was overthrown because of his failure to bring about needed policies for the interrelated objectives of political and economic development.

CHAPTER VII

SUMMARY AND CONCLUSION

The Ugandan case illustrates one of the most significant features of the development process as experienced in most developing economies in recent years -- namely, a substantial rise in the unemployment growth rate. Stagnation of total and sectoral employment opportunities have been a disappointing feature of the post-independence period, largely because the growth in non-agricultural output (the major objective of development plans during the period) has not produced any comparable expansion of employment. On the other hand, the rate of population growth has been rapid -- close to 3 percent annually. Rapid growth and a relatively young population have led to rapid growth of the labor force seeking employment. Given the stagnant level of wage employment, the consequence has been the indicated substantial growth in the level and rate of growth of unemployment.

On the supply side, a reduction in labor force growth would be a long term process. The active labor force up to the 1980's has already been born, therefore, already determined. A population control policy, if adopted, will have a restraining influence on the rate of growth and size of the labor force after a long interval. This dissertation has not dealt with measures to control population growth, since the objective has been the generation of employment opportunities and a reduction of the unemployment gap in the short or intermediate run period of a decade or two.

On the demand side, the stagnation in employment in Uganda or East

Africa may be explained by private-social discrepancies or monopolistic practices which have biased the factor-mix against labor. This has taken a variety of forms: labor prices or wages have risen primarily because of government intervention through statutory determination of minimum wages; capital goods prices have been reduced below the level they would have attained through over-valuation of exchange rate or subsidies of various kinds; interest rates have been kept low; choice of techniques have been biased against labor-intensive ones by aid-tying arrangements or the mistaken belief in the superiority of production techniques of developed nations; and so on. The result is that, especially but not exclusively in the modern sector of the economy, one finds a higher capital/labor ratio than would be the case if factor prices were market-determined and decisions were based on them. In sum, the resultant stagnation of employment, in the face of growing supply of labor, has led to a significant level of unemployment.

Unemployment of educated manpower has also become a serious problem in East Africa. Analytically, this category of unemployment indicates a case where investment has been misdirected, in the sense of leading to excess supply of certain types of training or skill (e.g., formal primary education). The colonial practice of maintaining a rigid relationship between the level of formal education and salary scales, inherited by the post-colonial regimes, induces and perpetuates the desire for formal education in the face of shortages in such categories of work as machinists, electricians, plumbers, and so on.

The key to the generation of employment opportunities in the modern sector of Uganda and, by extension, East Africa, is the elimination of factor-price distortions which have discouraged the use of labor-intensive production techniques. Various ad hoc measures (including wage subsidies and tripartite agreements) to generate employment in the urban sector have been tried in East Africa. Since the urban-rural income differential continues to be maintained (assuming stagnation in rural incomes) or even widened, the ad hoc approaches have been shown to lead to a significant migration of the rural labor force in search of employment opportunities and higher earnings in the urban sector. The consequence of this process is likely to be a much higher level and rate of growth of urban unemployment than would have been the case without the ad hoc measures. Moreover, if the educated youth are induced to accept these urban created jobs at the given wages -- as they may likely do when confronted with a long period of unemployment -- the uneducated and older migrants would find it that much more difficult to secure urban wage employment. In short, the ad hoc measures are not effective substitutes for the elimination of factor price distortions.

The fact that the urban labor force in an economy such as Uganda is a function of the prevailing wage rate, the rural-urban real income differential, and the assessment of individuals of the probability of getting a job, makes the concept and scope of incomes policy much more comprehensive than it would be in developed countries. In other words, incomes policy in the context of Uganda must deal with prices and incomes received by farmers in the rural sector in addition to wages received by urban workers.

In the past, development policy has been aimed at the gradual transfer of peasant farmers to employment in the urban or non-agricultural sector, on the assumption that mechanized farms, requiring much less labor input, are much more productive. A significant proportion or rural incomes were withdrawn through export taxes and/or Marketing Board surpluses to be used for growth in industrial output and employment. The result, however, has been disappointing. Urban employment failed to expand adequately to absorb the rapidly growing rural to urban migrants and urban labor force. The narrow urban base of an economy such as Uganda, even under normal conditions, could not be expected to generate employment opportunities for more than a small proportion of the total labor force. In the final analysis, the rural sector in Uganda must provide the bulk of employment opportunities. Consequently, and ideally, the removal of agricultural export taxes and Marketing Board surpluses were shown to be the appropriate policies.

The removal of export taxes may not be possible given the revenue needs of a developing nation like Uganda. Then subsidies for agricultural labor and other farm inputs may be necessary to compensate for the resources that were withdrawn. This will maintain a higher marginal value product and hence, a higher level of employment than would be the case without the compensatory payments. The effectiveness of such policies depends on the relative contributions of the various inputs to agricultural value added. Labor and land are the most important farm inputs in Uganda in terms of value added, so that subsidies for the purchase of these inputs should be expected to generate substantial employment opportunities. Underlying this analysis is the premise, supported by the historical achievement record of such countries as Taiwan and Korea, that small-scale family farms in Uganda are responsive to market incentives. The trend towards mechanized or anti-employment farming techniques are not a necessary or inevitable

aspect of the Ugandan agricultural sector. In fact, the effectiveness of subsidizing labor inputs to the generation of employment depends on the degree to which subsidized mechanization of farms is eliminated.

The above policies that are essential for the generation of employment opportunities in a country like Uganda have gained wide support from economists familiar with conditions in the area. Policy-makers, too, should be assumed to have been aware of the need for such policies. Various statements they have made and the inclusion of employment generation as one of the primary objectives of development plans in recent years indicate their awareness. Yet high urban wages and anti-employment policies in the agricultural sector continue to prevail, though at various intensity in the different countries of East Africa or elsewhere. The post-independence period in Uganda has been used to illustrate that political considerations primarily explain the persistent divergence between desired and actual policies for the generation of employment. In this sense, the effective adoption of the recommended policies to generate employment in both rural and urban areas depends on the extent to which popular political institutions are developed and internal contradictions between the interests of different segments of the population are resolved. Uganda failed in this endeavor. Whether the new military regime will succeed remains to be seen. Its record since 1971 does not, however, offer hopeful expectations.

The Tanzanian socialist regime and the popularity of President Nyerere has often been cited as a model for other African countries facing similar economic problems. It is not necessary to go into a discussion of ideological issues pertaining to the applicability of socialism to conditions in developing nations such as Tanzania. The issue is complex and the intellectual debate is far from settled. There is no doubt that Tanzania had a highly stable government, but it is not clear whether this stability was due to the political philosophy of socialism or the political skill and charisma of President Nyerere. In any event, Tanzania was able to impose effective restraints on salary and non-salary benefits for civil servants and politicians. Accordingly, the acceptance of urban wage restraint has been enhanced. Moreover, Tanzania has made rural self-help a major objective of employment generation and the elimination of mass unemployment.

Yet some doubts persist. Unskilled wages have not been effectively curbed. Despite a variety of rural programs such as "villagization" schemes which started as early as 1963, the colonial structure of export taxes and the consequent negative impacts on agricultural prices and incomes continue to be maintained. Rural aid programs partly compensate for the resources withdrawn and minimize the negative impact of rural employment. Yet, as Helleiner has shown, rural peasants in Tanzania have not fared as well as the wage earner even if the impacts of export taxes are not considered.[124] Consequently, rural to urban migration, particularly of the young school-leavers, and urban unemployment continue to exist at a significant level.[125] One could, however, argue that it would take some time before the various rural programs show the intended results -- higher incomes and employment. In short, the success of the Tanzanian model of development in the creation of adequate employment opportunities remains to be demonstrated.

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[124] G. K. Helleiner, Agricultural Export Pricing Strategy in Tanzania, Paper 66 (Dar es Salaam: Economic Research Bureau, University College, December, 1966), pp. 2-9.

[125] See p. 46 above.

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