WEP 2-43/WP.18

WORLD EMPLOYMENT PROGRAMME RESEARCH

Working Paper

LABOUR MARKET ANALYSIS AND
EMPLOYMENT PLANNING

Working Paper No. 18

Rural-urban income trends in sub-Saharan Africa

by

Vali Jamal and John Weeks

Note: WEP Research Working Papers are preliminary documents circulated to stimulate discussion and critical comment.

November 1987

6874d/v.5

ISBN 92-2-106332-1

First published 1988

ILO publications can be obtained through major booksellers or ILO local offices in many countries, or direct from ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. A catalogue or list of new publications will be sent free of charge from the above address.

Printed by the International Labour Office, Geneva, Switzerland

TABLE OF CONTENTS

LIST OF TABLES

PART I

IDENTIFICATION OF TRENDS

Changes in economic context

The non-petroleum-producing countries of sub-Saharan Africa (SSA) had not recovered from the shock of oil price increases during 1973-74 when their economies were hit by the second wave of increases (1979) and the recession in the Western industrial countries. Already accumulating sizeable foreign debts, African governments faced in the early 1980s weak primary product prices, high real interest rates, and hardening terms for new loans to cover balance-of-payments deficits. The decline in the demand for primary products reduced growth rates and generated falls in formal sector employment and incomes. Since a large portion of government revenues in countries of SSA derives from levies on trade, the economic crisis has also been associated with large fiscal deficits. Pressures to reduce state expenditure, affecting the supply of basic services, and coming in some cases from multilateral lenders, has resulted in suspension of development programmes in many countries.

Present economic conditions in SSA are in sharp contrast to the favourable and optimistic trends of the 1960s and, to a lesser extent, the 1970s. Many of the economic and social relationships assumed to be fundamental characteristics of SSA countries derive from this period of growth. As shall be shown, some of these relationships have proved transitory, though they still reside in the predilections and implicit analytical prejudices of most observers. In order to place the trends which are identified subsequently in context, it is necessary briefly to characterise the post-independence period. While each country had its own specific characteristics, certain common elements can be isolated.

In only a few countries of SSA was the struggle for independence from colonial masters a particularly violent one. However, in most there was some form of political pressure exerted through a national coalition of various groups differentiated by region, ethnicity or class. As a consequence, political differences, particularly along economic and social lines, were obscured by the dichotomy between Europeans (including settlers in some countries such as Kenya and Zimbabwe) and Africans, with Asians assuming an intermediate position in a number of countries. Corresponding to this, divisions in wealth presented themselves as divisions between the privileged Europeans and the impoverished African population. With independence, there followed in every country a process of "Africanisation", the replacing of Europeans and Asians with nationals in the civil service, the universities and the private sector. In some countries, such as Ghana and the United Republic of Tanzania, colonial salary scales were compressed, but everywhere the difference between what a common labourer earned and the salaries of professionals and managers remained enormous. Further, in the absence of a landed elite in most of Africa,[1] those earning high incomes comparable to salaries in the former colonial centres were concentrated in the major cities. Thus, the great income differences passed down as a colonial legacy changed from an African/European dichotomy to an urban/rural one.

Central to this were the wage earners, concentrated in urban areas in most SSA countries. Characteristically, trade unions had played a prominent role in pressuring for independence. Once independence was granted, workers' organisations represented an equally vocal interest group pressuring for higher wages, though their importance has in some instances been exaggerated.[2] With their prestige high and influence at its peak, trade unions were able to achieve wage increases of significance in the immediate post-independence period, particularly in former British East Africa.[3] The momentary influence of trade unions increased the appearance that the fundamental division in privilege and wealth was between town and countryside.

The urban-rural division also seemed to be reflected in the development orientation of the post-colonial governments. With rare exceptions, the colonial masters had not encouraged industry in their possessions. As both an economic strategy and as a nationalist desire to redress this arrested development, the new governments embarked upon programmes of import substitution and large-scale public works such as dams, roads, etc. By their nature, these tended either to be located in urban areas or to have their benefits concentrated there. The particular way in which these development programmes were financed contributed to the interpretation that the urban-rural division was the primary one for considering questions of wealth

---

[1] Kenya and Zimbabwe, as well as the former Portuguese colonies, were exceptions, with White settlers. In Northern Nigeria there was a national class based on control of landed property, the Hausa-Fulani elite. Nigeria is unusual in this regard.

[2] Particularly in Nigeria. See John Weeks: "The impact of institutional factors and economic forces on urban wages in Nigeria", in Nigerian Journal of Economic and Social Studies, Vol. 13, No. 3 (1971). An example of the over-emphasis on trade union influence is found in Peter Kilby: "Industrial relations and wage determination failure of the Anglo-Saxon model", in Journal of Developing Areas, I (July 1967).

[3] John Weeks: "Wage policy and the colonial legacy: A comparative study", in Journal of Modern African Studies, Vol. 9, No. 3 (1971).

and income distribution. Most governments derived a substantial part of their revenues from taxation of agriculture, frequently through state marketing boards which set producer prices below world prices. In consequence, it seemed the case that urban industry was financed at the cost of an undifferentiated rural population. Since the State dominated the formal employment sector in most countries (and acted as a wage-leader for private industry, many argued), it could plausibly be inferred that peasants were also paying for the perceived privileges of the urban working class.

This characterisation of SSA in the late 1960s we shall call the "post-colonial pattern of development". It created in the minds of most academic observers and policy makers, national and foreign, a certain stylised picture of the typical African country. In this picture, the country was divided starkly between a privileged modern sector (later "formal" sector), where urban elites and wage earners enjoyed extravagant privileges from high incomes and government services, and a vast undifferentiated peasantry that lived in poverty and largely produced the wealth to pay for these privileges. Between the two was a growing population of urban squatters living in increasingly miserable conditions around cities, drawn by the magnet of "bright lights" and high wages.

Once this stylisation of the SSA countries became accepted as conventional wisdom, the Todaro model of rural-urban migration was indeed an idea whose time had come, epitomising and encapsulating the superficial impressions of a generation of development practitioners.[1] In its analytical simplicity, explaining the complex and massive problem of urban migration in terms of two variables (the rate of urban unemployment and the urban-rural income gap), it captured the attention of academics and policy-makers in less developed countries much in the way the equally simple Phillips Curve did in advanced market economies.

Here was a tool to explain the stylised imbalances in African societies, and it mattered little that all three of the variables in the model were theoretically suspect. A wealth of literature argued that unemployment was not a valid analytical category in the context of African countries. The "urban-rural income differential" rarely was specifed with regard to economic differentiation among the peasantry, the key to making it relevant for migration. And rural-urban migration had been shown by many studies to be considerably more complicated than a question of new arrivals entering a

---

[1] Michael Todaro: "A model of urban unemployment and migration for less developed countries", in American Economic Review, 59, 1 (Mar. 1969).

random queue for jobs. When empirical work was done to test the hypothesis, the key explanatory variable, the rural-urban income differential, yielded mixed results statistically.[1] This, along with trends we identify in the next section, suggest that for at least two decades analysts have incorrectly modelled the dynamics of labour markets in SSA. We return to this theme in the final part of this report.

In the next section we identify recent trends in SSA. These show that the stylised view of African countries derived from the post-colonial pattern of development is no longer appropriate. The grand conceptual division between town and country upon which this view was based is no longer justified in most countries. First, we shall identify the trends with only occasional reference to specific countries, then follow this with a country-by-country treatment in which the trends previously identified are verified in the concrete. In Part III, the country evidence is briefly summarised.

Labour market trends

Economic crisis has profoundly changed the character of most African economies, bringing about a radical shift in the relationship between rural and urban areas, though the poor in both areas have suffered greatly. In what follows, we identify eight trends, all closely related and interactive. The overall effect of these trends is to require a sharply revised view of African economies.

The first clear trend is that real wages of urban workers have fallen during the last ten years, in some cases dramatically. Where evidence is available, it appears that unskilled wage earners in the formal sector have done worse than the average for all wage workers, and government unskilled minimum wages have generally fallen even more. The last trend explains why unskilled workers have fared worse than average, as with urban labour markets in excess supply, the minimum wage has increasingly become the representative wage for many workers. In some cases the fall in real wages has been so catastrophic that a growing proportion of wage earner households have been pushed below poverty level as measured by ability to purchase a minimum diet. If one aspect of privilege is not being in poverty, then fewer and fewer

---

[1] See J.B. Knight: "Rural-urban income comparisons and migration in Ghana", in Bulletin (Oxford Institute of Economics and Statistics), Vol. 34, No. 2 (1972); and J.F.S. Levi: "Migration from the land and urban unemployment in Sierra Leone", op. cit., Vol. 35, No. 4 (1973). In neither study is the measure of rural and urban incomes found to influence the level of urban unemployment to any significant degree.

African workers are now privileged. The characterisation of the mass of urban workers in the region as an "aristocracy of labour" no longer holds true.

Second, the security and stability of formal sector employment has declined. An aspect of the stylised characterisation of African societies in the post-colonial pattern of development was to stress the stability of employment and the inability of employers, public and private, to discharge workers. In hindsight, this characterisation (labour being virtually a "fixed cost") was a phenomenon of prosperity and expanding employment opportunities. In most countries of the region private sector employment has declined, and falls in government employment have not been unusual. If obtaining a formal sector job in the past involved the expectation of holding that job indefinitely, this is no longer true. In some African countries entire industries have shut down (iron-ore mining in Sierra Leone) and in most they are running up well below capacity levels. If protective legislation once made it difficult for private employers to discharge workers, such regulations are now commonly ignored, or ways have been found to circumvent them. As a consequence, even the employed face increasing job insecurity. Limited evidence indicates that employment has declined more for unskilled workers than for the semi-skilled and skilled.

As a consequence of the first two trends, the distinction between the formal and informal sectors is becoming blurred, even breaking down. The difference in incomes to be earned in the two sectors is decreasing, and along with it the lifestyles and living conditions of households deriving their primary incomes from each. Insecurity of employment for formal sector wage earners makes their situation comparable in many ways to that of informal sector operators. With the fall in formal sector employment, erstwhile wage earners have moved into the informal sector, where they probably fare worse than the average economic agent there.[1] While entry into the informal sector may be relatively free from an institutional point of view, unskilled wage earners are unlikely to possess the skills to engage in productive activities in the informal sector nor the capital to establish permanent commercial shops. In any case, productive activities such as shoemaking, tailoring, etc. must be key to the healthy expansion of the informal sector, since all of the new entrants cannot sustain themselves by selling to each other what third parties produce. Discharged wage earners drop into the lower reaches of the informal sector, which depresses even further the low incomes

---

[1] For evidence on this and on other events in the paragraph, see the JASPA document The informal sector in Africa (Addis Ababa, JASPA), 1985.

there. The distinction between the two sectors is becoming blurred also because of the deterioration in urban living conditions. Socialised services such as education, but particularly health, housing and sanitation, are considerably worse than a decade ago. While in the past observers stressed the net benefits of urban life as a magnet attracting migrants, the relevant emphasis now would be on the net cost of urban life.

Fourth, there has been a substantial decrease in the income gap between urban wage earners and the rural population. This is the trend which most dictates a radical change in thinking about the dynamics of labour markets in SSA. In most countries, the gap between average urban incomes and average rural incomes has declined. But in some cases (see Nigeria, later), an increased average gap has gone along with a decline in the ratio of wage earner incomes to the incomes of farmers on smallholdings. The gap between the earnings of unskilled urban workers and peasant smallholders has declined to the point where it is in favour of the latter in some countries. As a consequence, wage earners have lost relatively to both peasants and the average level of income in urban areas.

A fifth trend is a consequence of the above: overall distribution of income in most countries has worsened. Contrary to the conventional wisdom of the past, the narrowing of the rural-urban income gap has not improved income distribution but has been at the expense of both wage earners and small farmers. Increasingly, the countries of SSA are not characterised by a split between the privileged urbanites and the disadvantaged farmers but between the rich and the poor, where the latter include wage earners, informal sector operators, and small peasants. Evidence points to a substantial redistribution of income towards private sector entrepreneurs in a number of countries. While the rural sector is not our primary concern, it can be noted that there is evidence of increasing inequality there too.

The sixth finding is that migration from rural to urban areas has not abated: if anything it appears to have increased. While data on this point are fragmentary and represent rough estimates, United Nations statistics show that the rate of urbanisation relative to the rate of population growth rose in the African region in the 1970s compared to the 1960s and that it is much higher than on the other developing continents. Given the previously discussed trends, this contradicts the simple model that makes migration dependent upon the gap between wages and rural incomes (equilibrated by unemployment in urban areas). According to this, an increase in urban migration implies a prior increase in the expected value of the urban-rural income differential. Yet the latter has declined sharply. Clearly, migration cannot be explained in these simplistic terms but is part of a much more complex and dynamic survival strategy in the face of falling real incomes for the poor, both urban and rural. In fact, anthropological and sociological studies in Africa have generally challenged Todaro-type views of migration, stressing that income remittances make a strict division of urban and rural incomes of questionable relevance.

As a consequence of the above six trends the dynamics of income distribution between urban and rural areas has changed. During the 1960s and 1970s income distribution in the African region was analysed in terms of a rural-urban dichotomy, in which any differentiation among groups within each area was treated as secondary, if at all.[1] It is certainly the case that in a number of countries of SSA in the immediate post-independence decade the gap in living standards between town and countryside was quite large. This gap quite probably included within it a substantial income differential between smallholder peasants and unskilled urban workers in the formal sector. It must be pointed out, however, that very little empirical work was done to support this view, and otherwise careful and responsible observers were content to accept it on the basis of casual empiricism and anecdotal evidence.

As a consequence, modelling of labour markets in Africa proceeded with little reference to the complexities of rural-urban interactions, restricting itself to a few variables that fitted well into neoclassical labour market models. With the benefit of hindsight, one can see that it was extremely superficial to focus upon the interaction of peasants and urban workers when considering the dynamics of income distribution. Even the proposed mechanisms by which workers allegedly benefited at the expense of farmers did not involve direct trade-offs but processes requiring the mediation of other groups of economic agents whose role was largely ignored. Consider, for example, one of the most direct mechanisms - government control of food prices in urban areas. The distributional consequence of such a measure would seem obvious. Food crop farmers lose because prices are held below market levels; urban workers gain more than professionals, high-level civil servants and entrepreneurs because food represents a higher portion of the expenditure of lower-income groups. On reflection, the distributional effects are far from obvious. To take but one complication, lower food prices may permit formal sector entrepreneurs to pay lower money wages than would be the case without price controls or subsidies, and thereby reap higher profits. If productivity

---

1 An example of how distribution was treated as an urban-rural phenomenon is given in the discussion of Kenya.

grows in formal sector firms and money prices are "sticky" downwards, the lion's share of the redistribution may be to profits.

It was probably never correct to place primary emphasis upon the peasant-wage earner relationship when considering the dynamics of income distribution, particularly in the light of many anthropological and sociological studies that indicated a significant rate of urban-rural remittances. This stress on peasants and wage earners, implying the primary role of the urban-rural dichotomy, was not so much a theoretical insight as an empirical generalisation based upon the superficial symptoms of the post-colonial pattern of development. Its major analytical consequence was to obscure the class and wealth distinctions present in both rural and urban areas.

Thus one arrives at the seventh major finding of this study, that <u>in the last decade the primary dynamic distributional relationship in the African region has been between rich and poor within both the urban and rural sectors</u>. Evidence on this is quite convincing and should come as no surprise. In a market economy during periods of depression, it is the weak and vulnerable groups that are least able to protect themselves against falling real incomes. In the last decade, these vulnerable groups have been wage earners (particularly the unskilled), urban informal sector operators, and peasants on smallholdings.

The dynamics of economic crisis in the African region have resulted in a squeeze on wage earners, informal sector workers, and small peasants, with redistribution towards profits and large farmers. In countries where profits have also fallen, the average urban-rural income gap has in some cases fallen, but in other countries it has risen despite a fall in the peasant-unskilled urban wage earner gap. This tendency for the poor in both urban and rural areas to suffer has led to interactive rural-urban survival strategies whose precise nature is not clear. However, there is evidence (particularly in the extreme case of Uganda) of nominally urban households supplementing their livelihoods from agriculture. And, conversely, households of poor peasants seem to have sought income sources in the urban informal sector, which would partly explain the continuation of rural-to-urban migration despite falling farmer-worker income gaps.

Before turning to an analysis of countries, one final trend should be noted. Fragmentary evidence indicates that, in a number of African countries (particularly Nigeria), the current economic crisis has stimulated or accelerated a tendency towards the economic differentiation of the peasantry. The consequence of this is that <u>a growing portion of the rural population can no longer maintain itself on the land</u>, either because of landlessness or because of fragmentation. While this tendency is in its incipient stages and Africa is far from the situation of Latin America or Asia where landlessness is rife, the dynamic consequences could be dramatic. Differentiation provides a "push" of migration to cities for which changes in the rural-urban income gap are largely irrelevant. In the context of stagnant or declining formal sector employment, the result is to swell the urban informal sector, which has been growing beyond its absorption capacity due to the fall in urban economic activity. This incipient trend is an ominous development for the future, creating for the African region a new and devastating wave of urban migration.

Summary of trends

The major trends relevant to African urban labour markets which have been identified, anticipating their empirical verification, are summarised below:

1. Real wages of urban workers have fallen, in some cases drastically, and particularly for the unskilled.
2. Security and stability of formal sector employment has been largely eliminated.
3. In part due to the previous two trends, the formal-informal distinction in urban areas has become increasingly blurred, particularly with respect to the lifestyles of households deriving their primary incomes from each sector.
4. There has been a general decline in the income gap between wage earners and farmers, though this has not necessarily involved a decline in the average rural-urban income gap.
5. The decline in the farmer-wage earner income gap has not necessarily improved the overall distribution of income, because of regressive income shifts within both rural and urban sectors.
6. There is no evidence that rural-to-urban migration has abated to any significant degree, despite the trends listed above.
7. Increasingly the primary aspect of income shifts in the African region is between poor and rich, within both urban and rural sectors and between sectors.
8. Economic differentiation in rural areas is creating a pool of the rural population which can no longer maintain itself on the land.

PART II

EMPIRICAL EVIDENCE BY COUNTRIES

In this section, analysis is made of the countries of the region for which there is sufficient information to draw conclusions. First, we take in alphabetical order seven countries previously studied in detail by one of the authors of this paper. Other countries of SSA are subsequently organised by subregions. Because the evidence is from different sources and measurement of the same phenomenon subject to different methodologies, we do not construct a table summarising the quantitative data. Instead, at the end of the analysis a comparative table is provided with qualitative judgements on the various trends for each country.

Kenya

Kenya is a country whose economy has fared better than most in the region during the world recession. The period 1978-83, however, proved a contrast to past performance, with per capita income remaining virtually unchanged. Formal sector employment grew, though at a declining rate. This intensified the persistent problem of urban unemployment, a problem which has plagued the country for almost two decades. The Government perceived this as so serious that twice since independence (1970 and 1979) presidential orders required all formal sector employers to institute a once-and-for-all (or rather twice-and-for all, as matters developed) increase in their labour force - by 10 per cent in the second decree. Whether these decrees had more than a transitory impact on employment level is a matter of controversy.

Among African countries, Kenya has commonly been identified as suffering from a particularly large rural-urban income gap. Of 14 countries of the region for which there are comparable measures, Kenya ranked sixth from the top in the urban-rural income gap league table (1980). For nine countries for which the wage earner-farmer gap has been measured (late 1970s), Kenya is second only to the Côte d'Ivoire.[1]

By all measures the rural-urban gap has been narrowing in Kenya, probably more or less continuously since independence. However, the "rural-urban gap" is an extremely complicated relationship in Kenya, where inequality within the urban and rural sectors is considerably greater than the inequality between the sectors by any measure. Rural inequality is particularly important.

---

[1] V. Jamal: "Rural-urban gap and income distribution in Africa: Synthesis report of six countries" (Addis Ababa, ILO/JASPA), 1982.

Kenya is one of the two countries in English-speaking Africa (Zimbabwe with a similar history being the other) characterised by a great degree of inequality in the distribution of land. This is a direct consequence of the settler-state nature of British colonial rule, in which large European estates were worked by Black Kenyans who had been coerced into wage labour through dispossession from their lands or imposition of "head" taxes. After independence, many Europeans sold their lands, some of which came into the hands of the post-colonial State and were redistributed. Other large estates were acquired by Black Kenyans and subdivided privately. However, large estates remain. In 1975, there were at least 2,148 farms of over 100 hectares in Kenya and at least 443 over 1,000. The numbers were virtually the same in 1983 (2,200 and 440).[1] Perhaps more significantly, the portion of marketed production arising from small farms, after being stable in the first half of the 1970s, fell from 55 per cent in 1975 to 51 per cent in 1983. These figures indicate that inequality worsened in the counryside between 1975 to 1983, just as had occurred from 1969 to 1976.[2]

The importance of land distribution in rural Kenya thus signals that the term "rural-urban gap" is misleading: first, because there is great dispersion around average rural income (and not normally distributed); second, because this dispersion is changing (becoming more skewed); and third, because the relevant distributional dynamics are not primarily between town and country but between large farmers and small farmers.

With these provisos we turn to consider the rural-urban gap itself (table 1).

We see that the real wages of both rural and urban wage earners fell over the period 1969-83, the former by 25 per cent and the latter by 37 per cent, thus narrowing the differential between the two. On the reasonable presumption that the basic consumption basket is cheaper in rural areas than in urban areas (because food constitutes such a large proportion of expenditure and rents are lower in rural areas), the real standard of living

---

[1] Republic of Kenya, Central Bureau of Statistics, Ministry of Finance and Planning: <u>Statistical Abstract, 1984</u> (Nairobi, 1985), pp. 99 and 103.

[2] Jamal: "Rural-urban gap and income distribution in Africa: The case of Kenya" (Addis Ababa, ILO/JASPA), 1982. To quote from that study, "... a bigger smallholder population had a smaller share of agricultural income, which of course means that intra-agricultural income distribution worsened ... The mechanism at work is nothing more complicated than the fact that large farmers by virtue of their great control over cash agriculture were the ones to benefit most from the agricultural price boom of the late 1970s." (p. 37).

Table 1: Measures of urban and rural incomes in Kenya, 1969, 1976 and 1983

	1969	1976	1983
Wages[a]			
All urban (nominal)	363	612	1 127
(price deflated)	686	612	432
	(112)	(100)	(71)
All rural (nominal)	155	286	574
(price deflated)	293	286	220
	(102)	(100)	(77)
Incomes per capita[b]			
Rural (nominal)	29.3	60.5	152.7
Urban (nominal)	216.8	326.5	626.0
Ratios[c]			
Urban/rural wages	2.3	2.2	2.0
Urban/rural per capita	7.4	5.4	4.1

[a] Kenyan pounds per annum. Both series deflated by low income cost of living index for urban areas.

[b] Kenyan pounds per annum. 1969 and 1976 from Jamal, Kenya, 1982; 1983 estimate is by authors of this report. It should be noted that because of changes in the national income accounts (redefinition of non-monetary income) it is not possible to have a direct comparison with Jamal's monetary/non-monetary division of rural incomes.

[c] A number greater than one indicates that urban incomes are higher.

Sources: Republic of Kenya: Statistical Abstracts, 1978 and 1984, and Jamal, Kenya, 1982.

of urban workers was in fact considerably less than twice that of rural workers. Second, the lowest-paid wage earners probably did much worse than average because the minimum wage for both rural and urban workers did not keep pace with average earnings. From 1978 to 1984, the urban minimum wage rose by 54 per cent and the rural by 70 per cent. Average earnings in both sectors more than doubled in nominal terms. Inspection of distribution of earnings tables in the Statistical Abstract confirms an increased clustering towards the bottom of the distribution.[1]

On the other hand, urban entrepreneurial income increased by considerably more than the wage bill - by 180 per cent from 1969 to 1976 - and by slightly more than that from 1976 to 1983. Data on the number of new businesses and closures suggest that income per entrepreneur rose.[2] While there are no direct measures of urban informal sector incomes (as elsewhere, this sector operates in camera in Kenya), once one nets out other incomes the residual imputed to the informal sector appears to have grown slower than the rate of urban migration.

Thus, for Kenya, the trends identified in Part II are confirmed. Real wages fell over the last decade and a half, the rural-urban income gap narrowed, and overall income distribution worsened. Within both the rural and urban sectors inequality increased. Referring to the period 1969-76, Jamal writes:

> ... [T]here is considerable inequality in Kenya and that inequality worsened in the 1970s, with the deterioration in both the rural and urban sectors. ... In the urban sector the inequality arises from the not uncommon inequality between the wage earners and informal sector operators on the one hand and formal sector entrepreneurs on the other.[3]

Before moving on to the next country, we consider data which indirectly casts light upon conditions in the informal sector in urban areas of Kenya. These data pertain to the size distribution of establishments by economic sectors, and these are given in table 2. Statistics are given for three years, 1978, 1981 and 1983. From 1978 to 1981, real GDP grew by 12 per cent, and by half that rate from 1981 to 1983. The rates of growth of formal sector employment were virtually the same as the rate of growth of GDP. It is

---

[1] While the Statistical Abstract provides annual data on the distribution of earnings by income ranges, the ranges have changed over the years, making temporal comparisons difficult. In addition, total earnings relevant for the tables are not given, so a percentage distribution of earnings by income range is not possible even for a single time period.

[2] The Crawford-Thorbeck study of income distribution came to quite sanguine conclusions about the degree of inequality in Kenya. The study completely ignored entrepreneurial income, an example of the pitfalls of laying primary emphasis upon urban-rural differences in income. Eric Crawford and Eric Thorbeck: "Employment, income distribution, poverty alleviation and basic needs in Kenya" (Geneva, ILO), 1978. A critique of the study is found in Jamal, Kenya.

[3] Jamal: Kenya, p. 58.

Table 2: Size distribution of establishments in Kenya, 1978, 1981 and 1983 (all figures percentages)

No. employed	Establishments			Employment		
	1978	1981	1983	1978	1981	1983
Manufacturing						
None	28.1	30.4	33.0	-	-	-
1-4	14.4	11.6	13.9	0.6	0.4	0.7
5-9	9.1	8.9	8.3	1.1	0.9	1.0
10-49	27.1	24.4	23.8	11.4	9.6	11.1
Over 49	23.1	24.6	21.0	86.9	89.0	87.1
	100.0	100.0	100.0	100.0	100.0	100.0
Number	2 336	2 585	2 846	-	145 176	148 219
Other*						
None	28.1	30.0	31.5	-	-	-
1-4	26.0	25.9	26.2	2.4	1.8	2.7
5-9	14.8	14.5	14.0	3.8	3.4	3.8
10-49	20.0	20.4	19.7	15.4	13.5	16.1
Over 49	11.1	9.2	8.6	78.4	81.1	77.3
	100.0	100.0	100.0	100.0	100.0	100.0
Number	-	14 563	16 078	-	397 661	425 163

* Includes construction, transport, trade and services. Excluded are agriculture, finance and banking.

Source: Republic of Kenya: Statistical Abstracts, 1979, 1982 and 1984.

reasonable thus to presume that urban labour markets experienced increasing excess supply during these years, particularly so after 1981.

It is in this context that one interprets table 2.[1] For both manufacturing and non-manufacturing sectors the proportion of very small establishments in the total increased. Manufacturing establishments with less than five employees represented approximately 42 per cent of the total in 1978 and 1981, and this rose to 47 per cent in 1983. In non-manufacturing activities, the proportion rose from 54 to 58 per cent. These figures suggest a shift of employment toward small, informal sector establishments, though the proportion of enumerated employment involved is tiny, as the table shows.

However, the table does indicate a shift in the composition of employment from the largest to the medium-sized and smallest establishments. This shift is more obvious when one recalls the presidential decree of 1979, ordering firms to increase employment by 10 per cent. There is general agreement that the greatest impact of this decree was felt by large, foreign-owned enterprises, which were most subject to scrutiny. It is perhaps for this reason that the employment share of firms hiring more than 49 persons rose in 1981. Given that formal sector employment was growing slowly compared to past experience, urban labour markets were in excess supply, and real earnings were falling, it is reasonable to conclude that employment in very small enterprises expanded under worsening conditions for the employed. This conclusion is consistent with the earlier evidence that income distribution worsened in Kenya over recent years.

Lesotho

Lesotho's economic life, and to a distressing extent its room for political independence, is dominated by the migration of workers to South Africa. Of tremendous importance to the personal disposable income of people in Lesotho, migration also plays a central role in the strategy of the South African Government to maintain labour surplus conditions in the Black "homelands", thereby keeping wages low and Black workers in a weak bargaining position.[2] According to the census of 1976, 153,000 workers from

---

[1] There is obviously under-counting of the smallest establishments. Here we presume that this under-counting is systematic from year to year, so the information can be taken as indicative of short-term changes. This particularly applies to conclusions about employment shifts.

[2] For a discussion of labour markets in South Africa, see J.B. Knight: "Labour allocation and unemployment in South Africa", in Bulletin (Oxford Institute of Economics and Statistics), Vol. 40, No. 2 (1978).

Table 3: Distribution of the labour force of Lesotho, 1976 (thousands)

	Male	Female	Total
Total	286	279	565
Employment in Republic of South Africa	129	24	153
Employment in Lesotho	157	255	412
Wage employment	18	12	30
Self-employment	139	233	392

Source: Jamal: "Rural-urban gap and income distribution in Africa: The case of Lesotho" (Addis Ababa: ILO/JASPA), 1982.

Table 4: Number of Lesotho nationals employed in South Africa, 1967-78 (thousands)

	1967	1972	1975	1976	1977	1978
Mining	77.4	98.8	102.4	116.4	130.0	127.4
Others	20.0	30.0	40.0	38.0	35.0	31.0
% labour force	21	25	26	27	29	27

Source: Jamal: Lesotho, 1982.

Lesotho were employed in South Africa in that year, accounting for 25 per cent of the active labour force aged 15 to 64. For males in this age group the proportion was 45 per cent. The numbers given in tables 3 and 4 show that the importance of migration increased slightly from 1967 to 1978. At the margin, one-half of the increase in the labour force over this ten-year period went to South Africa. The role of Lesotho as a labour reserve for capital in South Africa goes back to before the days of the UN-mandated territories, and the dynamic effects upon the economy of Lesotho have been pervasive.

Labour migration is at the heart of Lesotho's long-term development problems, rendering the country in effect a poor province of South Africa. One ratio indicates the source of the problem - in the late 1970s, the wage for unskilled labour in the mines of South Africa was five times average rural income in Lesotho (Rands 1,077 per annum compared to about 200).[1] In contrast, the urban-rural income differential within Lesotho is small and of secondary consideration. It is the lure of the income gap between farming and working in the mines (despite the degrading conditions there) which draws workers in the thousands from the countryside of Lesotho. It would be hopeful to find that remittances from workers have been used to improve and develop peasant agriculture in Lesotho, but all evidence is to the contrary. Indeed, it would be irrational for peasants to use remittances in this way. The income gap between agriculture and mining is so great and the prospect of closing that gap so improbable and long run that investment in agriculture is an unattractive choice for the individual. This is a clear case in which labour markets operate to create a contradiction between individual and collective interests.

Official government estimates for the late 1970s measure remittances in the region of 40 per cent of GDP. The impact on agriculture of the proximity to South Africa goes beyond this. South African agriculture, mechanised and using cheap Black labour, determines the prices of food products in Lesotho. Competition and market forces generated within the South African economy have the major impact on local production rather than any subsidy on imports or price controls. The negative effect of competition from South African agriculture and migration are the fundamental causes of the enormous urban-rural income gap in Lesotho, not any "urban bias" in development strategy. Further, the connection between the two countries has a direct and distorting effect on urban wages. If wages in Lesotho do not keep pace with those in the Republic of South Africa, semi-skilled and skilled labour will migrate to the mines. This link is shown in the relationship between the basic mining shift rate and the unskilled wage in Lesotho. From 1972 to 1978, the former rose almost sixfold, while the latter increased fourfold. By comparison, agricultural value added in Lesotho rose less than 50 per cent, and was less than a third of the earnings of migrants to South Africa.[2]

Lesotho is indeed "the exception that proves the rule". Contrary to our generalisation in Part I, we find that urban real wages rose in Lesotho in the 1970s. This has not been the result of any government policy as such nor of economic trends within Lesotho, but the consequence of labour migration to South Africa. Still, when one factors in remittances, rural households enjoy

---

[1] Jamal: Lesotho, 1982.

[2] Jamal: Lesotho, 1982.

a standard of living considerably higher than households of unskilled workers, about on par with the earnings of the semi-skilled workers. As has been stressed, this does not reflect the healthy state of agriculture, but the contrary.

Nigeria

Few economies in Africa have been so dramatically altered in the last 20 years as Nigeria's. In 1965, Nigeria was primarily an agricultural country and agriculture accounted for virtually all of its exports. Despite controversy over the role of the state marketing boards, agriculture had performed quite well since the end of the Second World War. While growth was not spectacular, it was steady, and the balance of payments position manageable. Twenty years later, Nigeria is a major oil producer, and the result has been, at best, mixed. Certainly the political consequences of the discovery of major oil reserves were initially tragic, for few would deny that the sudden prospect of oil wealth prompted the civil war which raged in the south-east for half a decade. The economic consequences have been no less disturbing. Agriculture has virtually collapsed, the Government faces an unmanageable balance of payment situation, and the country is burdened with a foreign debt whose payment is problematical. Schatz has argued that except for the oil sector, the economy has had no significant growth since the early 1970s.[1] If oil wealth has not been a curse for Nigeria, it certainly has not been an unmixed blessing either. As shall be shown, all of the trends identified in Part I hold for Nigeria, and this is in no small part due to the distorting effect that oil had upon the economy. This distorting effect is indicated by the finding that although the overwhelming majority of the net earnings from petroleum never reached rural areas, urban poverty in Nigeria increased substantially during the oil boom, while the degree of rural poverty probably remained unchanged.[2]

---

1 Sayre P. Schatz: "Pirate capitalism and the inert economy of Nigeria," in Journal of Modern African Studies, Vol. 22, No. 1 (1984). A similar view is found in the World Bank country report on Nigeria (Nigeria basic economic report (Washington, DC, IBRD, 1981)) and in Jamal: "Rural-urban income gap and income distribution: The case of Nigeria" (Addis Ababa, ILO/JASPA), 1982. See also his 1986 paper "Poverty and inequality in Nigeria" (Geneva, ILO), mimeo.

2 "Allowing that there have been no drastic changes in acreage distribution or (apparently) big increases in the total rural population, this means that there is still very roughly the same number of rural poor. However, there must have been a big increase in the number of urban poor." ILO/JASPA: First things first: Meeting the basic needs of the people of Nigeria (Addis Ababa, ILO/JASPA), 1981. The quotation refers to the early 1960s and the late 1970s.

Rural-to-urban migration has been a major phenomenon in Nigeria since before independence, and in the last ten years major cities - Lagos, Kano, Kaduna, Port Harcourt, and Warri - have grown with almost astounding rapidity. The wealth generated by petroleum partly explains this growth (particularly for cities such as Port Harcourt and Warri), but urban migration is an older phenomenon which the oil boom intensified.

While Nigeria has the largest wage labour force in the African region, it remains a small portion of the economically active population. In recent years it has probably declined relatively to the urban labour force, for the urban population has grown considerably faster than formal sector employment.[1] As elsewhere in Africa, social services such as education, health, and sanitation are more available in urban areas than rural ones. It is open to question whether the poor in urban areas benefit much from these amenities. On a continent characterised by considerable urban blight, the cities of Nigeria probably excel all others in their wretched living conditions. This is particularly the case for Lagos, whose basic services are inadequate on average and largely non-existent for the poor.[2] Ironically, conditions worsened during the oil boom. Urban migration increased substantially, but this did not prompt the authorities to use the revenues to maintain urban conditions, much less improve them. When considering rural-urban differences in living standards in the Nigerian context, the socialised benefits of town life should probably be considered as negative. Particularly in the south of the country the net amenities found in large villages and small towns exceed those of Lagos, Port Harcourt and Warri when one factors in pollution, the absence of garbage and waste collection, and grossly inadequate transport facilities. These problems worsened in the last ten years. To give but one concrete example, much of the expansion of formal sector employment in the booming cities occurred in plants far from the areas where workers live, increasing non-discretionary costs of city life (as well as reducing leisure time).

---

[1] See O.J. Fapohunda, J. Reijmerink and M.P. van Dijk: "Urban development, income distribution and employment in Lagos", World Employment Programme Research Working Paper (Geneva, ILO), 1975.

[2] A history of urbanisation of Lagos and description of conditions there in the mid-1970s is found in O.J. Fapohunda and Harold Lubell (with J. Reijmerink and M.P. van Dijk): Lagos: Urban development and employment (Geneva, ILO), 1976.

Table 5 provides estimates of agricultural and non-agricultural incomes in Nigeria for selected years 1970-1983. Two points should be noted: first, this measure does not indicate rural-urban diffferentials as such, since rural incomes include some non-agricultural earnings and second, the measure does not reveal the wage earner-farmer income differential, for all non-agricultural incomes are aggregated. What the table shows is that the oil boom coincided with a substantial decline in agricultural incomes relatively to non-agricultural incomes. This is hardly surprising, since petroleum revenue is by definition non-agricultural.

More instructive of distributional changes is table 6, though the series here ends with 1978-79. Here income is divided into rural and urban recipients. As with the agricultural/non-agricultural ratio we see that the average gap between urban and rural households has increased. However, the gap between unskilled wage earners and rural households has declined. As a result of the oil boom there was a tremendous increase in urban incomes, but little of this increase filtered down to the great majority of urban workers. The years shown in the table are when the revenues from oil were the greatest (including the years of large price increases, 1973-74 and 1979). During the period, average urban incomes rose in every year but 1974-75, increasing by over 30 per cent. At the same time, average rural incomes remained more or less constant, so the average rural-urban gap rose from 3.4 in 1973-74 to 4.6 in 1978-79.

However, the ratio of unskilled wage earner incomes to rural incomes did not rise over the six years. It fell, if one takes 1974-75 as the benchmark, or remained about the same on the basis of the 1973-74 value. The large increase in this ratio in 1974-75 reflects the institutional manner in which wages are set in Nigeria. Beginning in the Second World War, colonial authorities adjusted wages through the creation of special wage review commissions. This practice was continued after independence, with wage reviews about every five years. As a consequence, the typical pattern for wage movements in Nigeria is a sudden and substantial money increase, followed by money wage stability and falling real wages (due to inflation). The periodic large increases have misled some observers to conclude that trade unions in Nigeria have been historically quite powerful and able to lay claim

Table 5: Agricultural and non-agricultural income in Nigeria, 1970-83 (Naira per capita per annum)

	1970	1973	1978	1980	1981	1983
Agriculture	55	63	144	161	167	198
Non-agric.	251	347	921	1 049	1 115	910
Ratio	4.6	5.5	6.4	6.5	6.7	4.6

Source: Jamal: "Poverty and inequality in Nigeria" (Geneva, ILO), mimeo., 1986, p. 10.

Table 6: Measures of rural and urban incomes in Nigeria, 1973-79 (measured in 1977-78 Naira per annum)

Income category	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79
Rural						
Average family income	733	773	731	724	715	725
	(100)	(105)	(100)	(99)	(98)	(99)
Urban						
Average family income	2 520	2 024	2 809	3 062	3 128	3 378
	(100)	(80)	(111)	(122)	(124)	(134)
Average unskilled wage	780	1 388	1 100	926	810	741
	(100)	(178)	(141)	(119)	(104)	(95)
Ratios*						
UFY/RFY	3.4	2.6	3.8	4.2	4.4	4.6
UUW/RFY	1.1	1.8	1.5	1.3	1.1	1.0
UFY/UUW	3.2	1.4	2.6	3.3	3.9	4.6

* UFY, urban family income; RFY, rural family income; and UUW, urban unskilled wage.

Source: ILO/JASPA: First things first; and Jamal: "Rural urban gap and income distribution: The case of Nigeria" (Addis Ababa, JASPA), 1982.

to real wage increases in excess of what labour market conditions would warrant. This view is now largely discredited.[1]

During the 1970s urban wage earners only temporarily improved their position compared to farmers, and lost considerably compared to other urban groups. Since there was heavy rural-urban migration during the decade, in excess of the rate of growth of formal sector employment, it is extremely unlikely that incomes in the urban informal sector grew. In a study done by one of the authors it was concluded that their incomes fell.[2] This leaves one with the conclusion that the "winners" from Nigeria's windfall of oil revenues were the professionals and formal sector emtrepreneurs (particularly the latter, who benefited also from tariff protection on their commodities). Falling urban real wages and declining or stagnant incomes in the informal sector resulted in an increase in urban poverty, from 33 per cent of households in 1973 to 38 per cent in 1978, according to Jamal's estimate (up to 5.2 million urban households).[3] Labour market conditions so deteriorated for urban workers that it appears that in the late 1970s the historic pattern in which public sector wages were higher than private sector wages for comparable occupations was reversed. This reversal implies that private sector earnings, particularly for the low-paid, reflected labour market conditions.

The 20-year pattern of price-deflated wages is shown in table 7. While no strong trend manifests itself in either the unskilled average wage nor the government minimum wage, it is clear that real wages in the early 1980s were below their level at the outset of the oil boom, 1974-76. Further, wage restraint and inflation since 1983 have led to further erosion of real wages. The allegation that Nigerian wage workers have been well-paid - itself discredited by a number of researchers - is no longer true.

Thus, one can conclude that the tendencies of the 1970s in Nigeria - falling real wages, increased urban poverty and inequality, and depressed

---

[1] Rimmer concludes, "... the gains won by Nigerian wage earners have been transitory in real terms ... [R]eal wages and salaries have tended to deteriorate throughout formalised employment". He goes on to generalise this to all of West Africa, "... institutional forces appear not to have produced, since about 1960, any sustained improvement in the pay of persons in formalised employment, and marked reductions in real wages appear to have occurred in some countries". Douglas Rimmer: The economies of West Africa, London (Weidenfeld & Nicholson), 1984, pp. 105, 108.

[2] Jamal: Nigeria, 1982.

[3] ILO/JASPA: First things first ... .

Table 7: Unskilled average wages and minimum wages in Nigeria, 1964-83 (1973=100)

Year	Unskilled average wage nominal	Deflated	Government minimum wage deflated
1964	56	95	93
1968	78	122	122
1970	88	107	113
1973	100	100	100
1974	137	121	109
1975	225	149	134
1976	228	122	110
1977	236	109	98
1978	253	101	84
1979	253	90	77
1980	288	93	106
1981	338	90	110
1982	356	84	100
1983	375	78	85
1984	422	64	61
1985	481	68	58

Source: Jamal: Nigeria, 1986, p. 14.

informal sector incomes - have intensified in the 1980s.[1] The glut on the world petroleum market has brought on a severe economic crisis in Nigeria, as manifested by the declining GDP, a large balance of payments deficit, and an unmanageable foreign debt position. Real wages have continued to fall along with formal sector employment. Whether or not the new Government can reverse these trends remains to be seen. It recently rejected an IMF austerity package in part because of its implications for the poor.

The trends identified in Part I are verified for Nigeria, and this is all the more tragic because of the great (and lost) opportunities presented to the country's leaders during the 1970s. Clearly sudden riches are not a sufficient condition for the amelioration of poverty and inequality. Finally, it should be noted that a number of researchers, notably Lubell, have argued that one trend coincident with the oil boom has been the concentration of ownership of high-quality agricultural land, particularly near major cities

1 "As to the gains won [by Nigerian workers] in 1980-81, it seems that about one-half had been lost through rising prices by the end of 1981", Rimmer (1984), p. 105.

(Lubell's research was on Kano). This raises the spectre of increased urban migration generated by landlessness to add to Nigeria's other problems.

Sierra Leone

Sierra Leone is a small West African country experiencing the effects of a depressed world market for minerals. Here the main mining products have been diamonds and iron ore. Production of the latter ceased completely in 1975 because of world market conditions. Though the iron ore sector has been reactivated, prospects are bleak (as in Liberia - see below). Diamonds, an enviable export in the past, have suffered world price declines. There seems little doubt that the economy of Sierra Leone is now paying the price for its high degree of openness. Indeed, the United Nations places Sierra Leone in the category of developing countries most affected by global economic disturbances. As serious as the fall in primary product prices has been the virtual disappearance of foreign capital inflows. Through the 1970s the trade balance was negative, and covered by official capital inflows. In 1981 official capital flows fell to 5 per cent of their level the previous year. A portion of the decline was made up by borrowing from private banks on relatively unfavourable terms.

While it is an extremely poor country, Sierra Leone is characterised by large inequalities in income distribution, particularly in urban areas. Evidence indicated a considerable rural-urban dichotomy - urban areas accounted for only 20 per cent of population in the early 1980s and received at least half of national income. But the primary basis of inequality was between the urban elite on the one hand, and wage earners, informal sector operators, and the peasantry on the other. Indeed, the differences in levels of income among these last three groups is relatively minor compared to their collective position vis-à-vis the urban elite. That this is not a recent phenomenon is shown in a study of urban migration by Levi. His data indicate that the relationship between wage earner and peasant incomes probably did not change from 1957 to 1970, and neither measure showed a significant coefficient with regard to the level of urban unemployment.[1]

The relationship between rural and urban incomes is shown in table 8. In 1970-71, average urban per capita income was six times the average rural income. However, this includes mining incomes (wages and profits), which considerably distorts the comparison. Net of mining the ratio is 4.6, and

---

[1] J.F.S. Levi: "Migration from the land ...", in Bulletin (Oxford Institute of Economics and Statistics), Vol. 35, No. 4 (1973).

Table 8: Urban and rural incomes in Sierra Leone, 1970-71 and 1980-81 (Leones per annum per capita)

	Current prices		1980-81 in 1970-71 prices[a]
	1970-71	1980-81	
Agricultural average income	58	192	71
Urban			
Average income	352	778	247
Non-mining	264	664	211
All wage	77	133	42
Ratios[b]			
AW/AAY	1.3	0.7	0.6
AUY/AAY	6.0	4.1	3.5
AUY/AW	4.6	5.8	5.9

[a] The differential effect of inflation is largely because increases in food prices have opposite effects upon the urban and rural populations.

[b] AUY, average urban income; AAY, average agricultural income; AW, average wage income.

Source: Jamal: "Poverty and inequality in Sierra Leone" (Geneva, ILO), n.d.

fell to 3.0 in 1980-81. This ratio is considerably greater than the one between agricultural income and average urban wage income, which in 1970-71 was only 1.3. By 1980-81, this ratio had dropped to considerably less than unity (0.7 in current prices and 0.6 in constant prices). To the extent that one can be startled by statistics, the last two lines in the table must take one aback - in 1980-81 the average wage earner was closer in income to the average peasant than he or she was to the average urbanite (where the latter average included wage earners themselves to pull it down). Alas, what at one time might have been thought a unique situation, has been replicated in other SSA countries recently.

This dramatic shift in the relationship between wage earners and peasants has been in great part the result of rapidly rising prices of agricultural products, a trend common to most of the countries covered in this report. However, the shift in rural and urban incomes shown in the table may not be a recent phenomenon. Real wages for the unskilled were lower in the 1980s than they had been in the late 1950s (see table 9). Since per capita income is

Table 9: Index of unskilled wages in urban Sierra Leone, 1957-83

Years	Nominal	Price deflated
1958	-	107
1961	100	100
1965	109	107
1970	145	91
1974	174	115
1977	195	83
1981	241	60
1983	353	74

Sources: Price deflated wages for 1958, 1965 and 1970 from Levi (1973). All others from Jamal, Sierra Leone (n.d.).

perhaps no lower now than 25 years ago, it follows that average wages have fallen relatively (and absolutely in constant prices) to per capita income over that period and not just in recent years. The extreme fall in real wages can be indicated by comparing the unskilled wage to a food basket providing the standard 2,200 calories per day per capita. It was estimated that in 1961 and 1970 such a basket would have accounted for slightly less than 60 per cent of the budget of the typical family subsisting on the income of an unskilled worker; by 1983 the proportion had risen to 100 per cent.

The deterioration in urban wages does not imply that peasant incomes have improved compared to wage incomes for the last 25 years (though they have in the last ten). Evidence indicates a substantial redistribution to profits during the 1970s and early 1980s, and this may have also been occurring earlier. Real wages for all categories of workers taken together have fallen. Because urban labour markets have been in increasingly excess supply it is difficult to imagine that informal sector incomes have risen in real terms. Following this line of argument, Jamal writes, "the trend in wages and informal sector incomes implies that the entrepreneur's income fared much better than those of the other two categories ... [T]he trends within urban areas thus point to the likelihood of a redistribution of income from the poorer groups on a substantial scale".[1]

The sharp fall in the unskilled urban wage, close to which the earnings of most workers are clustered, in great part explains the higher incidence of poverty in urban areas than in rural ones. Jamal estimates that in the late

[1] Jamal: Sierra Leone (n.d.), p. 5.

1970s, 64 per cent of urban families were below the poverty line, compared to 39 per cent of rural families. Further, the proportion of urban families with incomes less than that necessary to provide the standard 2,200 calories was double that in rural areas (20 per cent and 10 per cent).[1] Thus, by some measures the rural-urban gap in Sierra Leone is in favour of rural households. This supports the point made before, that inequality in Sierra Leone is based on the dichotomy between the urban elite on the one hand, and workers, informal sector operators and peasants on the other. In the mid-1970s, the urban elite represented 6 per cent of the country's population and captured 34 per cent of national income.

Traditionally, mining workers have been relatively well paid, but can no longer be considered privileged. Iron ore production was suspended in 1975, throwing thousands of men into unemployment. While production has now resumed, it has done so at a lower level of employment. Suspending production allowed the companies effectively to destroy the strength of the unions and hold money wages down. Workers in the diamond mines are still paid above the average for urban wage earners, but the number employed has declined and real earnings have fallen.

The recent experience of Sierra Leone confirms the trends identified for sub-Saharan Africa: real wages have fallen sharply, public and private sector employment has declined, the rural-urban income gap has moved in favour of agriculture, and income has apparently been redistributed toward entrepreneurs and other elements of the urban elite. Sierra Leone demonstrates that a declining urban-rural income gap does not imply an improvement of income distribution.

Somalia

Somalia is a country whose economic characteristics are quite unique. It is a relatively non-urbanised country by regional standards, and in the countryside pastoral agriculture is the main source of livelihood. In most countries considered in this study pastoralism is a marginal phenomenon, though quite important for some ethnic groups, such as the Fulani in West Africa and the Masi in Kenya. Somalia is also unique because of the phenomenon of out-migration to the Gulf countries to seek employment and the importance of remittances in the economy.

In 1970, this migration was insignificant but by the end of the decade it had become extremely important. The remittances of migrants and a second

---

[1] Jamal: Sierra Leone, 1982, pp. 14-15.

characteristic of the Somali economy, the great importance of trade activities in urban areas, make it difficult to draw conclusions about rural and urban incomes. Added to the difficulties of assessing urban-rural differentials, is the controversy over the correct measurement of milk production and consumption, the main staple of pastoralists. Jamal's measure of urban incomes, accepted as the most accurate, are given in table 10.[1] The table shows a sharp fall in wage incomes in real terms, by 60 per cent from 1970 to 1980, and a 32 per cent rise in non-wage incomes. However, this massive shift between the two categories of income does not necessarily indicate a shift betwen households. The non-average incomes are primarily derived from trade. Given the extensiveness of trading activities and the tiny size of the formal sector labour force, it is quite possible that most wage earner households include members who receive substantial non-wage incomes. Further, wage earner households receive considerable remittances from family members working abroad.

With regard to rural areas the incidence of poverty has been exaggerated in the past, because of underestimation of milk production and conceptually faulty poverty lines.[2] Reasonable estimates of milk consumption indicate that nomadic caloric intake is adequate, as well as being of higher quality than that consumed by many cultivating agriculturalists elsewhere in the region. But if the poverty situation in Somalia is better than generally assumed and if falling wages do not necessarily reflect declining living standards, the overall situation still gives cause for concern. Wages are not merely one input into a household income stream, but also the monetary incentive for workers to dedicate themselves to their employment, seek skills, and generally perform well on the job. When real wages have fallen by 60 per cent in a decade, it is hard to imagine that the tiny industrial sector of Somalia is destined to overcome the disadvantages of infancy. Indeed, it

---

[1] See Alan Hoben, et al.: "Somalia: A social and institutional profile", African Studies Centre, Boston University, Working Paper No. SP-1, 1983. See also a joint report by the Ministry of National Planning and UNICEF: Women and children in Somalia (Mogadishu, MNP/UNICEF), 1984 and two forthcoming (1987) reports by ILO/JASPA: "Generating employment and incomes in Somalia" (Addis Ababa, ILO/JASPA, 1987) and UNICEF (Reginald Green and Vali Jamal): "Somalia: Paradoxes of private prosperity, poverty pockets, volatile vulnerability and public pauperisation" (Mogadishu, UNICEF). A report by Statistics Sweden - (by Claes Norrlöf) National Accounts Aggregates, 1977-86 (Prel.) (Mogadishu), July 1987 - incorporates Jamal's estimates of milk production in the Somalia national accounts.

[2] See discussion in Jamal: Somalia, 1982, as well as Hoben et al., Somalia, 1983.

Table 10: Real urban incomes in Somalia, 1970-80*

Years	Wages	Non-wage income
1970	3 984	11 231
1974	3 876	13 316
1977	2 863	12 755
1978	3 041	13 474
1980	1 645	14 811

* Incomes measured in 1970 prices, shillings per annum. Wage incomes are after tax.

Source: Jamal: "Rural urban gap and income distribution: The case of Somalia" (Addis Ababa, ILO/JASPA), 1982, p. 61.

appears that all productive sectors in the economy are in difficulty or decline.

What the overwhelming impact of remittances points to is that the Somali economy suffers from distortions considerably more serious than those allegedly the result of "incorrect" relative prices, a point also made in the case of Lesotho. And if the economies of the oil states continue suffering difficulties, remittances may well decline drastically. In such a case, economic activity in urban Somalia would contract sharply.

United Republic of Tanzania

The United Republic of Tanzania has suffered severely from the world recession and its unique commitment to egalitarian development and meeting the basic needs of the population is threatened.[1] The emphasis on equity has always been somewhat controversial, some even going so far as to argue that current difficulties are in great part due to domestic policies intended to promote equity.[2] In considering such arguments it may be pointed out that many countries in the African region are facing difficulties equal or worse than Tanzania's, none of which stand accused of having taken significant steps to improve income or wealth distribution.

---

[1] See ILO/JASPA's aptly titled employment mission report, Basic needs in danger (Addis Ababa, ILO/JASPA), 1982 for Tanzania's achievements in basic needs satisfaction and threats posed by current recession.

[2] For a review of the evidence from the angle of the villagisation programme see P. Collier, S. Radwan and S. Wangwe, Labour and poverty in rural Tanzania (Oxford, Clarendon Press) 1986.

Tanzania's most pressing problem from a narrow economic viewpoint is the balance of payments. In the early 1980s current imports were double the value of current exports. This large trade deficit is partly the result of a decline in the volume of exports over the last ten years (at about minus 3 per cent per annum). Domestic policies contributed to the poor export performance, with blame particularly cast upon the villagisation programme, the role of product marketing boards, and the nationalisation of sisal estates. However, by any balanced judgement domestic policies can explain only a small part of the trade deficit. Tanzania's barter terms of trade declined sharply over the last ten years. In 1973 and 1980 the volume of imports was the same, but the cost in current prices was three times greater in the latter year. Had export volume grown at the average rate for all low-income countries over the period (about 5 per cent per annum), the trade deficit would still have been large and required external assistance to finance. In 1979 and periodically since then the Government entered into negotiations with the IMF to reach agreement on a high conditionality loan package. The negotiations were quite contentious. At issue were policy changes demanded by the IMF (e.g. devaluation and eliminating food subsidies) which would have a detrimental effect upon vulnerable groups.

Throughout the 1970s and into the 1980s, the United Republic of Tanzania subsidised a number of basic foodstuffs. Maizemeal was perhaps the most important of these for the urban poor. Evidence indicates that the subsidy programme was successful in keeping down prices of foodstuffs, which fell in relation to the general price level during 1973-83. Success in avoiding shortages and parallel markets with higher prices was achieved through imports. In 1981 and 1982 imported cereals accounted for almost 70 per cent of subsidised sales. It has been argued that domestic policies are to blame for Tanzania's poor performance in export agriculture, and the same argumenthas been applied to food production - that low producer prices and the price-depressing effect of imports have discouraged production.

While this argument has a certain logic in the abstract, it does not seem to be confirmed by available evidence. According to FAO statistics, during 1978-81 the United Republic of Tanzania was one of only 11 countries in sub-Saharan Africa in which the per capita production of food rose.[1] And while per capita production fell during 1982-84, the decline was slower than for the majority of countries. This is consistent with the view that imports of cereals have increased because domestic production declined, not

[1] FAO: Monthly Bulletin of Statistics, Vol. 7, No. 1, Dec. 1984.

the reverse. The hypothesis that the subsidy programme depressed food production remains speculative, while it is a fact that the consequence on low income urban families (which include wage earners) has been quite severe. Shortly after the subsidy was dropped (as part of an IMF agreement) the price of maizemeal per unit rose from 2.5 to 12 shillings.

Even before abandonment of the subsidy programme, urban wage earners in the United Republic of Tanzania had suffered a near catastrophic fall in purchasing power, both absolutely and relatively to peasant cultivators. The basic information demonstrating this is shown in table 11. The data show an improvement in the relative position of wage earners from 1969 to the mid-1970s, then a deterioration which was considerably greater than the previous improvement. The reasons for this are not hard to find. From 1975 to 1979 the Government imposed a freeze on wages, and at the same time food prices rose dramatically.

Table 11: Urban and rural incomes in the United Republic of Tanzania, 1969-82 (shillings per annum)

	1969	1972	1973-75	1978	1980	1982
Rural:						
Smallholder	1 844	1 867	2 338	5 456	6 540	11 064[b]
Urban wage:						
Aver.non-agr.	4 522	5 184	6 890	8 510	9 093	11 568[b]
Min.wage	1 920	2 460	3 587	4 560	5 360	-
Ratios:						
ANa/Sm	2.4	2.8	2.9	1.6	1.4	-
Mw/Sm	1.0	1.3	1.5	0.8	0.8	-

Note: ANa, average non-agricultural wage; Sm, smallholder average income; Mw, minimum wage.

Source: 1969-80 from Jamal: Rural-urban gap in Tanzania, p. 10; 1982 from ILO: Distributional aspects of stabilisation programmes in the United Republic of Tanzania (Geneva, ILO), 1985, p. 17.

the reverse. The hypothesis that the subsidy programme depressed food production remains speculative, while it is a fact that the consequence on low income urban families (which include wage earners) has been quite severe. Shortly after the subsidy was dropped (as part of an IMF agreement) the price of maizemeal per unit rose from 2.5 to 12 shillings.

Even before abandonment of the subsidy programme, urban wage earners in the United Republic of Tanzania had suffered a near catastrophic fall in purchasing power, both absolutely and relatively to peasant cultivators. The basic information demonstrating this is shown in table 11. The data show an improvement in the relative position of wage earners from 1969 to the mid-1970s, then a deterioration which was considerably greater than the previous improvement. The reasons for this are not hard to find. From 1975 to 1979 the Government imposed a freeze on wages, and at the same time food prices rose dramatically.

Two ILO reports provide an instructive way of comparing the trend in incomes of farmers and wage earners.[1] Farmer and worker incomes are divided into food and non-food components. For farmers who produce and consume their own food, changes in food prices affect real purchasing power only for the marketed part of their output (they eat maizemeal, not the price of maizemeal). Wage earners must purchase all that they eat, so changes in prices affect their entire food consumption. On this basis the estimates show a 9 per cent increase in the real incomes of farmers from 1973-75 to 1980 (table 12), while wage earner real incomes fell by 50 per cent. This dramatic drop in wage incomes resulted in cutting the income gap between the two groups, to a point where urban workers on average had a standard of living in 1980 only 20 per cent higher than rural smallholders.

The trends depicted above have continued, with workers continuing to lose absolutely and relatively to farmers. The minimum wage was increased in 1981, but this only momentarily checked the fall in workers' real incomes. Food prices continued to rise, and by 1983 the minimum wage was less than half its 1969 value in real terms, and the non-agricultural wage earners had lost a catastrophic two-thirds of the purchasing power of their incomes. Table 13 shows this, and the bare numbers are startling, virtually unprecedented in the region with the exception of Uganda and Ghana.[2] The effect this has had upon the condition of urban workers challenges the imagination. Knight and Sabot, writing in the early 1980s, lamented the stability of employment in urban the United Republic of Tanzania and its alleged implications for

---

[1] ILO: Distributional aspects of stabilisation in Tanzania (Geneva, ILO), 1985; and Jamal: "Rural-urban gap and income distribution in Africa: The case of Tanzania" (Addis Ababa, ILO/JASPA), 1982.

[2] "In ILO experience there have been few international comparisons; indeed, declines of much smaller magnitudes have sometimes been associated with much social unrest." ILO: Distributional aspects of stabilisation in Tanzania, p. 35. For the case of Uganda and Ghana, see later.

Table 12: Real income trends for farmers and wage earners in the United Republic of Tanzania, 1969-80

Years	Farmers	Wage earners	UR/Rur-GAP*
1969	100	100	2.4
1972	97	96	2.4
1973-75	100	102	2.5
1978	108	65	1.5
1980	109	52	1.2

* Urban-rural income ratio, which differs from previous table because of effect of adjusting for urban and rural prices.

Source: Jamal: Tanzania, 1982, p. 13.

Table 13: Real wage trends in the United Republic of Tanzania, 1963-83

Years	Minimum wage	All wages	NonAg wage
1963	109	64	69
1965	100	84	90
1969	100	100	100
1972	121	101	93
1974	130	113	108
1978	86	73	72
1980	74	53	52
1981	77	49	50
1983	45	-	35

Source: Jamal: Tanzania, 1982 and 1985.

allocative efficiency, commenting, "the lack of mobility reflected in part the payment of wages high by comparison with incomes outside of the modern sector.[1] If this were once true, it is no longer so. So great has been the fall in real wages that it threatens one of the central elements in the Government's recovery programme - raising productivity and efficiency in state

[1] J.B. Knight and R.H. Sabot: "From migrants to proletarians: Employment experience, mobility and wages in the United Republic of Tanzania", in Bulletin (Oxford Institute of Economics and Statistics), Vol. 44, No. 3 (1982), p. 224.

industries.[1] When real wages fall to this degree, the result is absenteeism, reduced effort, and less commitment to formal employment because of the necessity to seek income supplements elsewhere.

Under these circumstances it is extremely improbable that there has been any improvement in informal sector incomes. The more likely case is that they have fallen along with urban wage incomes. The fall may have been less, in as far as informal sector street vendors have benefited from increased prices.

But the number of street sellers and small artisans has probably increased faster than the turnover of sales, because of continued urban migration and members of wage earner households entering the informal sector out of necessity. Estimates of informal sector incomes indicate that while a few owners of permanent shops earn more than the urban average, the great majority of operators receive considerably less than the average wage. This implies that a high proportion of households earning their livelihoods from the informal sector fall below the poverty line.[2] While urban real wages and informal sector incomes have fallen sharply in recent years, there has been a major shift in income from the poor classes to the elite in urban areas.

These trends have been intensified by the policies associated with the "structural adjustment programme" pressured upon the Tanzanian Government by the IMF. The policies (e.g. devaluation, denationalisation) are familiar ones and of questionable relevance to the concrete circumstances of the current economic crisis in the United Republic of Tanzania. The programme reflects the general view of the IMF that inflation, trade deficits and fiscal deficits have the same cause in all countries and circumstances. "Structural adjustment" has a different meaning within the halls of the IMF than might be inferred by the intelligent layman. In the United Republic of Tanzania, as elsewhere, little change in the structure of the economy is foreseen by the programme,[3] except in as far as the measures would return the economy to

---

[1] "Unless real wages are reasonably protected it is quite unlikely that any amount of exhortation or the introduction of material incentive schemes will offset the erosion of worker performance." (ILO: The United Republic of Tanzania), 1985, p. 37.

[2] Jamal: Tanzania, 1982, pp. 33-36.

[3] "... the SAP (Structural Adjustment Programme) was ill-named since it foresaw very little structural change and is formulated more in terms of returning to the economic structure of the late 1970s." ILO: Stabilisation in Tanzania, 1985, p. 21.

an earlier more agriculturally based organisation in which the Government plays a smaller role.

In anticipation of the final section of this report, a few comments on the Structural Adjustment Programme are called for. The devaluation which the IMF technicians demanded (and this is not too strong a word) seems singularly inappropriate in the Tanzanian context. In as far as its purpose was to shift the terms of trade towards agriculture, this had occurred with a vengeance prior to devaluation. If the primary purpose was to increase the return to export crops, its effect is open to question on both theoretical and empirical grounds, as we argue later, citing an econometric study of the Sudan. And there is a broader point to be made with regard to labour markets, the concern of this study. IMF structural adjustment programmes and IMF philosophy in general seem to incorporate the view that without exception wages are "too high" in developing countries. While the IMF frequently recommends policies to raise real interest rates, it rarely if ever suggests that wages are "too low" and should be raised. This asymmetry in policy reflects a particularly narrow view of how labour markets operate, namely that any excess of jobseekers over the available openings is evidence of wages being above the "market-clearing rate". In the final part of this report it will be argued that this view is incorrect, that the wage can be below its efficient allocative level without markets manifesting shortages as such - or rather, the shortages manifest themselves in a form that can be superficially interpreted as surpluses.

The evidence indicates that in the United Republic of Tanzania there has been a dramatic shift in income from urban to rural areas, contradicting the view that there is a universal "bias" towards urban development in African countries. It should be noted that Ellis has challenged the allegation that there was ever an "urban bias" in Tanzania's development policy in the sense of a division between rural and urban interests as two distinct categories of pressure groups.[1] Rather, he argues, the conflict was between a portion of the urban elite and the peasantry, and the surplus appropriation associated

---

[1] Frank Ellis: "Relative agricultural prices and the urban bias model: A comparative analysis of the United Republic of Tanzania and Fiji", in The Journal of Development Studies, Vol. 20, No. 3, Apr. 1984, where he writes (p. 47): "... the urban bias model ... sidestep[s] the awkward reality of an intra-agricultural class differentiation, but in so doing it incorrectly divorces the political objectives of various rural classes from the material basis of their interests in agricultural production and agricultural land ownership; behind this lies an unpreparedness to confront the really central political issues implied by championing the peasants ...".

with this conflict merely (and necessarily) took the form of emphasis upon urban development. In this process, urban wage earners were secondary and transitory beneficiaries, their gains quickly consumed by rising prices.

The United Republic of Tanzania in recent years confirms the identified trends with a vengeance: real urban wages have fallen tremendously, formal sector employment has become less secure,[1] the urban-rural income gap has closed, the formal/informal distinction is breaking down, and income distribution has worsened (at least in urban areas). The first trend, the fall in real wages, exceeds what has occurred elsewhere in the region with the exception of Uganda and Ghana.

Uganda

In the last 15 years perhaps no other African country has experienced as wide a range of misfortunes as Uganda. As in other African countries there were the negative impacts of the recession in the West, the oil price shocks, and inclement weather. But unique to itself, Uganda had to adjust to the break-up of the East African Community, to a war with the United Republic of Tanzania - and to General Idi Amin Dada as the supreme economic planner and political overlord. During a regime of singular economic mismanagement and repression he reduced a once prosperous and promising country to one of the poorest in the world. Amin's single most important foray into the economic field, and one which set off the decline, was his so-called War of Economic Independence against the Asian community in 1972. The consequent and almost predictable collapse of the modern sector that the Asians controlled, spread, through the breakdown of the infrastructure, to the export sector, bringing ruin to all other sectors.

GDP figures show that between 1970 and 1980 aggregate monetary GDP fell by 25 per cent, implying a decline of around 42 per cent in per capita terms.[2] "Modern sector" GDP fell by as much as 55 per cent. Export

---

[1] The effect upon formal sector employment has been somewhat complicated, for the Government has sought to avoid creating redundancies in state enterprises. Whether or not this can be achieved, the deterioration of commitment to formal sector employment has dramatically altered the context for those employed.

[2] Figures in this paragraph are based on The Republic of Uganda: Background to the budget, 1984-85 (Kampala) 1984; for further details see Jamal: "Structural adjustment and food security in Uganda" (ILO, Geneva), 1985.

production declined massively. In contrast, the food sector held up pretty well.[1]

In terms of living standards, the economic collapse in Uganda affeced most heavily the urban wage earners. Both in the late colonial and early independence periods Uganda was classified by a "high wage" policy, intendedto establish a permanent "committed" wage labour force in urban areas.[2] Minimum wage had been raised fourfold since 1957, whereas export-crop prices had declined by 40-60 per cent. Such huge wage increases completely changed the nature of wage employment and structure of incomes in Uganda. In 1957 the minimum wage would have bought only three-fifths of the food requirements of an average-size family in towns, using as the unit of measurement the most basic staple, matoke (green bananas) (see table 14); by 1967 only one-half of the minimum wage would have sufficed. In 1957 the average farm income (including subsistence income) was three times the minimum wage; ten years later the minimum wage exceeded the average farm income by nearly one-fifth. This structure of incomes collapsed in the 1970s. Minimum wage fell to 10-15 per cent of its 1972 value in the 1980s and would have bought no more than a week's supply of food.

Such a massive fall in real wages induced an equally dramatic change in the lifestyle of urban wage earner households. Similar changes have happened in other African countries by now; the Ugandan case stands out because the changes occurred at such a rapid pace and in such an extreme form. All tribes had to reduce their consumption of the preferred foods (meat, milk, fruit, etc.) which in the 1960s were absorbing a sizeable and growing proportion of their income. Even within the category of staple foods there were switches, particularly to maizemeal, which in relative terms became a cheaper source of calories than matoke. For the non-Baganda tribes this signified a

---

[1] This judgement is in contrast to the assessment of the FAO, whose statistics show a sharp decline (17 per cent between 1972-74 and 1980-82 or from 2,141 calories per capita per day to 1,781 calories.) Careful inspection of the FAO data showed an underestimation of the "roots and tubers" group - cassava, sweet potatoes, and plantains - which normally provide 40-50 per cent of total calories in Uganda. National figures give 2,382 as the figure for calorie availability in 1980-82. The FAO statistics are from their food balance sheet computer printouts. The national figures used are from the Republic of Uganda: Background to the budget, 1984-85 (Kampala, 1984).

[2] In the late 1960s one spoke of wage earners as the "labour aristocracy" in Uganda - of course not in relation to non-African entrepreneurs, but African farmers. J.B. Knight: "The determination of wages and salaries in Uganda", in Bulletin (Oxford Institute of Economics and Statistics), Vol. 29, No. 3, Aug. 1967.

Table 14: Minimum wage in nominal and real terms in Uganda, 1957-84, selected years

	Minimum wage (Sh p.m.)	Price index (1972=100)	Real wage (1972=100)	% of min. wage to purchase 9,000 cals.
1957	33	61.4	29	164
1959	75	62.4	65	
1962	138	67.0	111	
1964	150	70.9	114	
1967	150	75.2	108	49
1970	185	90.2	111	
1972	185	100	100	60
1976	240	368	35	
1980	400	3 348	6	
1981	950	6 068	8	
1984 (Apr.)	6 000	22 000	15	
1984 (Nov.)	6 000	35 000	9	450

Source: Jamal: Uganda, 1985. Minimum wages up to 1972 from reports of minimum wages advisory boards and J.B. Knight: "The determination of wages and salaries in Uganda", in Bulletin (Oxford University Institute of Economics and Statistics), Vol. 29, No. 3, 1967, pp. 233-264; after 1972 from information provided by the Ministry of Labour. Price index from Uganda: Statistical abstract and idem: Background to the budget, various years. Figures in the last column derived from matoke price data.

continuation of past trends; for the Baganda it signified a major departure in their diet patterns.

Alteration of diet still left a large gap between family subsistence needs and income. To compensate, wage earner households re-established links with the countryside, reversing the labour force stabilisation process of the 1960s. Trips back to the family farm (shamba) became common and some members of the family were actually permanently sent back to tend such farms. More significantly, urban families began to grow their own food, something that had always happened, but was on the decline because of increasing "specialisation" and influx of non-landowning migrants. With the departure of these migrants Kampala became more a Baganda city than it ever was - and with the cultivation of food crops a more rural city. Before 1972 most urban budget surveys showed that Kampala was 20 per cent self-sufficient in calories; in the 1980s that figure quite likely doubled.

The second structural change that took place involved the break-up of the wage-earning class. With the wage down to 10-15 per cent of its value, a person also effectively worked that much less. Some of his free time he devoted to organising side activities and this meant "business", the buying and selling of small items of consumer goods. More significantly the wage earners' family members took to this kind of trading, the opportunities for which increased because of the gap left by the Asians. Compared to pre-1972 one is struck by the visible increase in street trading. As stated previously, something like that has now happened in most African cities, but in Uganda the reasons were different, for the fact is that unlike other African countries migration actually slowed down or even changed direction.[1] And yet the informal sector grew. What happened was that a great part of the trade previously in the hands of the Asians was shared by an increasing number of petty traders. Thus, we have the phenomenon of the expansion of the informal sector without migration. The culmination of these two changes was that after the mid-1970s the distinct classes that had existed in urban Uganda in the 1960s coalesced into a grand trader-cum-wage earner-cum-shamba growing class and the final outcome was that while urban incomes fell quite sharply, the total income available to urban groups from trade and wages and own-farming still kept them above basic food poverty.

Ghana

Ghana is a country which has had a particlarly poor growth performance since independence in the mid-1950s, but the oil price increases and subsequent world recession worsened matters considerably. The major agricultural export is cocoa, and a common conclusion by observers is that peasants producing this crop have been denied the gains to which their labours entitled them, both historically and recently. Cocoa is commercialised, as in other West African countries, through a state marketing board, and during the 1970s peasants received a producer price less than one-quarter of the world market price.

Notwithstanding what some have called the "exploitation" of the cocoa farmer by the State, rural/urban income differences in Ghana are surprisingly low, perhaps the lowest in West Africa. Knight's work indicated a very narrow

---

[1] The growth rates (percentage per annum) of the four largest towns between 1969 and 1980 were as follows: Kampala 3.2; Jinja -0.7; Mbale 1.7; Tororo 0.5. Compared to this, the overall population growth rate was 2.8 per cent. Now up to 1972 the towns were growing at 5-6 per cent per annum. Thus between 1973 and 1980, all towns (including Kampala) registered lower growth rates than the natural population increase, implying reverse migration. Source, Republic of Uganda: Background to the budget, 1982-83 (Kampala, 1982) table 1.26, p. 50.

gap between wager incomes and peasant incomes in the late 1960s, narrow enough to conclude that the difference was within the range of measurement error.[1] More recent work, using a different method so it is not comparable, also shows a relatively small gap.[2]

Despite the heavy implicit taxation of cocoa through marketing boards, it appears that cocoa farmers on average earn more than urban workers. As cocoa farmers are the rural elite, this is to be expected. A more recent development is the dramatic improvement of producers of foodstuffs compared to urban wage earners. From 1974 to 1980, prices of foodstuffs rose thirtyfold, and the ratio of these prices to the prices of urban-produced commodities which farmers buy increased by 52 per cent over the same period.[3] While no direct measure of the rural-urban income gap is available for the last ten years, an ILO study concludes that "there are signs that the real value of the urban-rural income (gap) may have been reduced by the differential action of inflation since 1974-75 ...".[4]

Food producers have done relatively well because urban wage earners have fared so wretchedly. Rimmer calculated that the minimum wage fell by 25 per cent in real terms from 1963 to 1975.[5] Tabatabai has made calculations for more recent years, which are given in table 15 along with relevant relative price indices. The time series shows a massive drop in real wages, of over 80 percentage points from 1970 to 1983-84. There may have been some improvement in 1985-1986, for the real minimum wage rose. Even then the absolute level remains a tiny fraction of its value in the early 1970s.

There is no direct evidence of changes in overall income distribution in Ghana in recent years, but some reasonable inferences can be drawn on the

---

[1] Knight (1972).

[2] ILO/JASPA (Dudley Jackson): "Rural-urban gap and income distribution in Africa: The case of Ghana" (Addis Ababa, 1982). See also H. Tabatabai: "Economic decline, access to food and structural adjustment in Ghana" (ILO, Geneva), 1986, which we use extensively below.

[3] ILO/JASPA: Ghana, p. 77.

[4] ILO/JASPA: Ghana, p. 76. Tabatabai has questioned the extent to which the increased retail and wholesale prices for food benefited producers. He concludes that farm-gate prices for foodstuffs probably fell relatively to the composite price index over the 1970s and during the early 1980s (p. 10). Notwithstanding this, he also concludes that "food farmers did extremely well as compared with wage earners and cocoa farmers" (p. 20) and the income gap between agricultural and non-agricultural incomes narrowed (p. 21).

[5] Douglas Rimmer: The economies of West Africa (London, Weidenfeld and Nicholson, 1984), p. 103.

Table 15: Price-deflated wages and relative prices, Ghana, 1970-85

	Min. wage[a]	Max. wage[b]	Agri. wage[c]	Relative prices: Food farmers[d]	Relative prices: Cocoa farmers[e]
1970	100	100	100	100	100
1971	91	143	111	101	92
1972	108	143	101	108	84
1973	91	99	94	113	90
1974	150	122	110	103	91
1975	109	101	97	110	90
1976	72	71	66	140	61
1977	51	60	65	130	35
1978	40	48	41	-	36
1979	27	37	28	-	45
1980	25	41	31	-	42
1981	26	23	23	-	20
1982	21	22	21	-	50
1983	18	17	14	-	22
1984	19	-	-	-	26
1985	37	-	-	-	36

[a] Daily minimum unskilled wage, divided by national consumer price index.

[b] Manufacturing monthly average earnings divided by national consumer price index.

[c] Average earnings of agricultural employees, divided by rural price index.

[d] Wholesale price of food, divided by urban price index.

[e] Producer price of cocoa divided by urban price index.

Source: Tabatabai, 1986.

basis of the previous discussion. As the Appendix table 5 shows, GDP in real terms rose in Ghana from 1978 to 1983, though by less than the population grew. During this period, real wages fell, as did employment, so the wage share declined. In rural areas, the earnings of cocoa farmers also fell, for their terms of trade with urban consumer commodities fell sharply (an aspect of the rapid inflation mentioned above). While incomes of food crop producers improved relatively, it is unlikely that they rose enough to offset these two declines. Further, real tax revenues fell, largely the result of the fall in world cocoa prices. If the net gain of urban workers, farmers and the Government was negative, then the net gain of other groups must have been positive (even if per capita income fell slightly). Since the salaries of high-level civil servants also fell, and it is unlikely that informal sector incomes rose with urban labour markets in excess supply, it follows as a likely possibility that entrepreneurs and rentiers were net "winners" in this period of inflation and extremely slow growth. This conclusion is not contradicted by the possibility of net transfers abroad, whose likely source would be profits.

Once again, the case of Ghana confirms several of the trends identified in Part I - falling real wages, instability of formal sector employment, a narrowing of the rural-urban gap (with respect to food crop producers at least), and a probable worsening of the overall distribution of income in the country. Finally, anecdotal evidence suggests that migration to urban areas has continued. The latter is quite believeable in the context of Ghana, where migration has never been associated with a large rural-urban income differential.

Liberia

Particularly hard-hit by the world recession have been the smaller countries of the region with open economies, for this combination is lethal when world markets are unstable. Openness allows external shocks to be transmitted to the domestic economy quickly, and small size means that what would be a minor and passing disturbance for a large economy is a devastating blow for a small one. When these two characteristics are combined with an undiversified export package, the results are catastrophic indeed. Liberia is a case in point, a small economy in which an undiversified export package was equivalent to over 60 per cent of GDP for the last 15 years. Liberia's major export, iron ore, has fared particularly poorly during the world recession, with little the Government could do to improve the situation. Were the Government able in some manner to make Liberian iron ore more competitive on the world market, this would necessarily be at the expense of other producing countries, for the stagnation of world steel production ensures that the total market is unlikely to grow. Even the grab-all remedy of devaluation is not available since the US dollar serves as the national currency.

Liberia is a country characterised by great inequalities, one aspect of which is rural-urban. It is important to note, however, that rural-urban inequality in Liberia is not the result of "urban bias" as such, but rather is symptomatic of (or the form taken by) the historic class and cultural division between the elite descended from immigrants (freed slaves from the United States) and the indigenous population. Policies to reduce rural-urban inequality confront the deeply rooted political and economic power of the elite families in the country.

It is somewhat surprising, therefore, to find that the average rural-urban income gap in Liberia is measured to be relatively low by regional standards. For the 17 countries covered by ILO studies,[1] only three had ratios in 1980 less than Liberia's 4.2. It is to be noted that this is the average ratio for all incomes urban and rural, and the former include mining wages, which are considerably higher than the average for all wages. The ratio of average income for workers' households in Monrovia to all farmers and rural self-employed was only 2.3 in 1977/78. And while mine workers have been the better-paid wage earners, the ratio of miners' households to rural households was also below the average urban-rural ratio in the same years, at 3.7.[2] From these fragmentary pieces of information, one may conclude that the mean income of urban workers and of miners must lie below the urban mean; i.e., wage earners were not a privileged group to any great extent in Liberia in the late 1970s.

To the limited extent that they were, their advantage has eroded rapidly in the years since 1978. Under pressure to reduce state expenditure, the Liberian Government has pursued a wage-restraint policy that bordered upon the draconian. In 1983, the Government cut money wages for public employees, and similar cuts followed in the private sector, including mining. This, along with inflation, has drastically eroded real wages. Food prices are estimated to have increased at about 10 per cent a year in Monrovia between 1980-83, and the money wage cut for unskilled government workers was 17 per cent. In addition, the Government at the same time raised indirect taxes (in response to IMF conditionality), which fall heaviest upon the poor in Liberia.[3] Rising food prices have improved the short-run income position of farmers, but as in the case of Ghana supply seems to be quite price inelastic. Food imports have increased, rising to 20 per cent of a declining real import bill in the 1980s.

---

[1] Jamal: "Rural-urban gap and income distribution in Africa: Synthesis report of 17 countries" (Addis Ababa, ILO/JASPA), 1984.

[2] These ratios are calculated from information in JASPA: "Rural-urban gap and income distribution: The case of Liberia" (Addis Ababa, ILO/JASPA), 1982, p. 66.

[3] For more on wage policy, see: A.A. Aboagye: "Impact of recession in African countries, effects on the poor: The case of Liberia" (Addis Ababa, ILO/JASPA), 1984.

Information on income trends is quite scarce for Liberia, so one must be cautious in drawing conclusions. It is unambiguously clear that real wages have fallen dramatically since the late 1970s. Employment, both in the public and private sectors (including mining), has also fallen. The rural-urban income gap has certainly narrowed (falling money wages and rising food prices), but by how much one can only speculate. In summary, evidence from Liberia confirms at least two of the identified general trends and contradicts none of them.

Other countries

Information on other African countries is limited, but what is available suggests similar conditions to those described above. Table 16 gives measures of the urban-rural income gap for six countries in the West African region. For all but the Cameroon, the gap is measured for both 1960 and 1980. It is to be noted that the ratios among the six are generally higher than for the countries so far considered. This is in part due to diffferences in method of measurement.

For the five countries for which comparisons can be made over time, the gap fell substantially in three (Mali, Senegal and the Côte d'Ivoire), but remained virtually the same in one (Burkina Faso) and rose in one (Togo). In the case of Togo, evidence indicates that the gap has probably fallen in recent years, for the urban minimum wage dropped in real terms from 1978 to 1983 by 33 per cent, and by 20 per cent from 1980 to 1983.[1] If the urban-rural gap did not change, then a substantial redistribution from poor to rich in urban areas must have occurred.

The country in West Africa with perhaps the largest gap between wage earners and peasants is the Côte d'Ivoire, for data show that the ratio of the minimum wage to average agricultural incomes in 1978 was 2.9, by far the highest in the subregion. This ratio indicates an even larger gap between wage earners and poor peasants, for the Côte d'Ivoire is the only country in West Africa in which the Gini coefficient for rural areas was greater than for urban areas (though by a small margin, 0.41 and 0.4).[2] Evidence also indicates that unskilled wage earners have suffered the most in recent years. While total formal sector employment excluding the unskilled workers rose by

---

[1] K.M. Gozo: "Effets de la récession sur l'economie Togolaise" (Addis Ababa: BIT/PECTA, 1985).

[2] BIT/PECTA: "Disparités de revenues entre les villes et les campagnes en Côte d'Ivoire" (Addis Ababa, 1982).

Table 16: Urban-rural income gap in selected West African countries, 1960 and 1980

	1960	1980
Cameroon	-	10.4
Côte d'Ivoire	10.7	7.3
Mali	12.8	3.7
Senegal	16.6	7.7
Togo	3.3	5.8
Burkina Faso	7.1	6.8

Note: Average rural and urban incomes, measured at current prices and uncorrected for diferences in urban and rural prices.

Source: Jamal: "Synthesis report of 17 African countries" (Addis Ababa, ILO/JASPA), 1984, p. 51.

8 per cent from 1978 to 1981, employment for the unskilled fell by 19 per cent (table 17). Over the same period, the real value of the urban minimum wage fell by 16 per cent. In consequence, employment in the urban informal sector was estimated to have risen from about 250,000 to 330,000 from 1975 to 1980. It is reasonable to presume that the fall in unskilled employment and the increase in the informal sector are not unrelated, and that the influx of unskilled workers into the informal sector drove down earnings there. There is some reason to believe that the decline in the formal sector may have stimulated the demand for informal sector products.[1] However, this would be a very selective gain, benefiting those involved in productive activities. Entry into the informal sector is only superficially free. Taking up productive activities probably requires skills which unskilled wage earners are unlikely to possess.

The tendency for the rural-urban gap to decline in these West African countries challenges the conventional wisdom on the causes of urban migration. According to available statistics, migration in all of these countries was quite substantial between 1960 and 1980, particularly in the Côte d'Ivoire and Senegal where the gap fell sharply. These two tendencies cannot be reconciled by arguing that it was migration in response to the gap that brought about the narrowing. This argument would imply that urban migration should have declined over time along with the gap. Evidence

[1] Gozo and Aboagye, 1985, p. 111.

Table 17: Unskilled employment in the Côte d'Ivoire, 1978-81

	1978	1979	1980	1981
Unskilled (000's)	161	170	147	130
Indices				
Unskilled	100	105	92	81
Other	100	96	111	108
Unskilled/Total	67	69	63	61

Source: K.M. Gozo and A.A. Aboagye: "Impact of the recession in African countries: Synthesis report" (Addis Ababa, ILO/JASPA), 1985, p. 107.

suggests that on the contrary migration was faster in the 1970s than in the 1980s.

Of the remaining countries of the subregion, most data are available for Zambia. ILO studies show that in both 1960 and 1980, the country had perhaps the highest urban-rural income gap on the continent.[1] While it fell by almost two-thirds over the 20 years, the disparity was still enormous. This is, however, a case in which averages are completely misleading, for the enormous gap is largely the result of income inequality in urban areas.

During colonial rule Zambia (formerly Northern Rhodesia) had many characteristics of a settler state, with tremendous income differentials on the basis of national origin. When nationals took over the posts of Europeans, salary scales were largely maintained without change, partly because many Europeans remained after independence, particularly in the mines. Table 18 shows the large intra-urban differences in incomes. The income differentials are based upon households in different types of dwellings, a distinction which corresponds to a quite strict segregation in urban areas based upon income status. Differentials declined slightly from 1974 to 1976, but it is probably not valid to draw any conclusions from such a short period. Rather, an average of the two years should be taken as indicative of the situation in the mid-1970s.

[1] ILO/JASPA: "Rural-urban gap: The case of Zambia", 1982. It should be noted that the figures given in the Zambia study are either an overestimate or based on a different methodology than those discussed in this section. See Jamal: "Synthesis report of 17 countries", 1984. For a discussion of distributional issues in Zambia see Rolph van der Hoeven: "Zambia's income distribution during the early seventies" (Geneva, ILO), World Employment Programme Working Paper, 1977 and ILO/JASPA: Basic needs in an economy under pressure (Addis Ababa, 1981).

Table 18: Urban and rural incomes in Zambia, 1974 and 1975

Population category	Incomes		Urban/rural	
	1974	1976	1974	1976
Urban				
Squatter	76	109	1.9	1.8
Low-cost housing	97	144	2.5	2.4
High-cost housing	478	581	12.6	9.7
All urban	126	171	3.3	2.8
Rural	39	60	-	-

Source: ILO/JASPA: Zambia, 1982, p. 39.

The table shows that the income differential between rural households and the urban poor (in squatter settlements and low-cost housing) was relatively low, similar to what was measured for other countries of the region. On the basis of other information about urban Zambia, it seems valid to presume that households in squatter settlements for the most part derived their incomes from the informal sector, while wage earners largely make up the population of low-cost housing. On these presumptions, informal sector households earned slightly less than twice the rural average, while the average for wage earner households was 2.5 times rural incomes. If one were to adjust for the diference in rural and urban prices (done for some of the previous countries considered), the peasant-wage earner gap would drop to about two. This differential is less than that measured for Kenya in 1976, but greater than for most West African countries and the United Republic of Tanzania. However, the gap is sufficient to make the incidence of poverty three times greater in rural areas than in urban ones.[1] Since these figures were collected, the position of wage earners has probably deteriorated relatively to farmers, because the combination of rising oil prices and the world recession has had a severely depressing effect upon the mining sector, which dominates the formal sector of the Zambian economy.[2]

[1] See Jamal: "Synthesis report of 17 countries", p. 39.

[2] John Suckling: "The impact of energy price increases on an export-dependent economy: Zambia, 1970-82"; World Employment Programme Research Working Paper No. WEP 2-22/WP.147 (Geneva, ILO), Apr. 1985.

With regard to other countries, data show that the urban rural gap in the Congo is relatively small, comparable to that in West African countries, and apparently it did not change from 1960 to 1980 (3.6 and 3.5).[1] A country whose recent experience seems to run counter to the trends we have identified is Zimbabwe. While this economy has also been negatively affected by oil prices and the world recession,[2] formal sector employment has remained stable and real wages have not fallen. Conditions in the countryside may have improved, for the country had particularly good harvests in 1984 and 1985, producing a surplus for export. However, rural-urban comparisons in Zimbabwe are complicated as in Kenya by the differences in large and small holdings, a legacy of colonialism and White minority rule.

We conclude this discussion of the non-sampled countries by pointing out that all of the identified trends are confirmed or not contradicted by country evidence, with the exception of an apparently rising rural-urban gap in Togo. Even in this case there is reason to think that the gap has fallen since 1978.

Summary of country evidence

As we dealt with each country, we considered the trends identified in the second part of this report. Here the evidence from the various countries is summarised in tabular form, rather than repeating previous conclusions in the text. In table 19 the various countries are listed vertically and the trends summarised in the columns as follows: (1) the movement in average urban wages in real terms; (2) the security and stability of employment; (3) the standard of living and employment conditions of formal and informal sector workers; (4) the average urban-rural income gap; and (5) the overall distribution of income.

Inspection of the table shows that in virtually all countries considered the trends identified were either confirmed or not contradicted. Because information on urban migration is not very precise, this trend is not included in the table.

---

[1] Jamal: "Synthesis report of 17 countries".

[2] Suckling: "Energy prices, development and the policy response in a small siege economy: Zimbabwe, 1964-81", World Employment Programme Research Working Paper, No. WEP 2-22/WP.119 (Geneva, ILO), May 1983.

Table 19: Summary of labour market trends in the African region (early 1970s to early 1980s)

Country	Real urban wages	Employment security	Informal/ formal	Ur/Ru gap	Income dist.
West Africa					
Ghana	fell	declined	merging	closed	worsened
Liberia	fell	declined	merging	?	worsened
Nigeria	fell	declined	?	closed[a]	worsened
Sierra Leone	fell	declined	merging	closed	worsened
Mali	?	?	?	closed	?
Senegal	fell	?	?	closed	?
Côte d'Ivoire	fell[b]	declined[b]	merging	closed	worsened
Burkina Faso	?	?	?	same	?
East Africa					
Togo	fell	?	?	?	?
Kenya	fell	declined	?	closed	worsened
Tanzania	fell	mixed	merging	closed	worsened
Somalia	fell	same	?	–[c]	?
Uganda[d]	fell	declined	merging	closed	?
Other Africa					
Lesotho	rose	same	?	–[c]	?
Congo	?	?	?	same	?
Zambia	fell	decined	merging	closed	?
Zimbabwe	rose	same	?	?	?

[a] Average gap widened, wage earner/farmer ratio fell.

[b] For unskilled wage earners.

[c] Because of migration, not relevant. See text.

[d] Depends on period of reference. See text.

PART III

ASPECTS OF THEORY AND POLICY

Virtually every country in Africa is suffering from an economic crisis, with the intensity varying from difficult to catastrophic. Were only a few countries facing problems, or even were it many, but with a handful displaying robust economic health, it might be credible to argue that the difficulties reflect unwise and misguided government policies. But when a crisis situation is universal, suffered by governments of the right and the left, by governments fundamentally committed to letting market forces run free and others that seek to limit and restrict market transactions, policies pursued by particular countries can explain little. It is for this reason that the IMF's uniform approach, with all emphasis upon domestic adjustment, is being received with decreasing credibility, even by economic conservatives.[1] The current depression of economic activity in the African region is not basically a problem of individual countries. Evidence for this assertion is overwhelming.

Notwithstanding this, many African governments are in desperate need of foreign exchange to cover trade deficits and have little choice but to accept the conditionalities demanded by the IMF. Among the items of conditionality is almost invariably devaluation (though Liberia, which uses the US dollar is presumably an exception). It is rather strange that devaluation should play such an important role in adjustment programmes, since its effectiveness as a policy instrument has been largely discredited by the new wave of conservative monetarists. And a wealth of economic theory anti-dating the public policy nihilism of "rational expectations" and the monetarist theory of the balance of payments casts doubt upon the impact of devaluation.

Devaluation is recommended on the grounds that one of its effects will be to shift relative profitability toward export production. Even were this true, advocating such a policy to a large number of countries (Asian and Latin American countries are prescribed the same remedy with the same enthusiasm) is precisely the "beggar thy neighbour" strategy which economists have generally condemned as contributing to the breakdown of world trade during the Great Depression. Fishlow has argued forcefully that such an export-promotion strategy is implicitly based upon a <u>ceteris paribus</u> presumption that only the

---

[1] See the position of the Thatcher Government described by Richard Hall: "Curtain to fall on IMF power", in <u>The Observer</u> (London), 12 Jan. 1986, p. 10.

country in question will execute it.[1] If all cocoa producers, for example, were to devalue, it is optimistic to think that the net increase in world demand for cocoa would sustain the presumed supply response from cocoa-producing countries.

And the theoretical outcome of devaluation is indeterminant, as shown in an ILO paper surveying the state of the theory.[2] Recent empirical work for the Sudan, using an econometric simulation model, verifies this theoretical argument in a concrete case study.[3] If devaluation has little to recommend it on either theoretical or empirical grounds, how does one account for its robust presence in IMF structural adjustment programmes? In part, the answer is a purely ideological one. Economic conservatives hold devaluation as a central tenet of the dogma that unregulated markets are self-adjusting and equilibrating, just as they never accepted Keynes's argument that falling wages will not clear labour markets in the aggregate (an issue considered below).

To be more charitable, there is a second consideration at work here. On three continents the economies of less developed countries are in crisis, even those hailed by conservatives as great success stories a decade ago. In present circumstances, with world liquidity tight and the OECD countries unlikely to exhibit more than modest expansion in the aggregate, the prospects for even a few less developed countries recovering in an impressive manner is slight. In such circumstances, it is hard for one to know what governments should do. Indeed, with regard to generating growth and a manageable external

---

[1] A. Fishlow: "The state of Latin American economics", in Inter-American Development Bank, Economic and Social Progress in Latin America, Report 1985 (Washington, IDB), 1985. If all countries followed the World Bank's advice as given in Accelerated development in sub-Saharan Africa: An Agenda for Action (Washington DC, World Bank, 1981) prices would fall. The response of the Bank (by Elliot Berg, the principal author of Agenda) is precisely beggar thy neighbour - or perish: "First of all, not all countries will follow counsel to expand primary exports. So those that do will capture the markets of those that do not, regardless of their respective comparative advantages. Given this reality, those who stand on the sidelines and urge African States to shun the export sector are in fact handing over market shares to Brazil or Malaysia or Indonesia." Elliot Berg: "The World Bank's strategy" in J. Ravenhill (ed.): Africa in economic crisis (Houndmills, Macmillan), 1986.

[2] E. Ghani: "The effects of devaluation on employment and poverty in developing countries", World Employment Programme Research Working Paper No. WEP 2-32/WP.57 (Geneva, ILO), Nov. 1984, pp. 7-12.

[3] N. Nureldin and A.P. Thirlwall: "The IMF supply-side approach to devaluation: An assessment with reference to the Sudan", in Bulletin (Oxford Institute of Economics and Statistics), May 1984, Vol. 46, No. 2.

account, there may be nothing they can do to alter the situation dramatically. Such a defeatist view, though it may be true, contradicts the tradition of eternal optimism which has been part of Western thought since the age of reason. Devaluation enters here in a ceremonial, almost religious role, supplying a source of optimism in face of a disastrous reality.

Specifically in the African context, we have seen that economic stagnation and decline have brought about many of the changes which devaluation is pledged to achieve. In virtually every country real wages have fallen, presumably more than enough to reduce labour costs substantially. Food prices have risen dramatically and relatively to the general price level, which should by neoclassical analysis stimulate production. In the event neither of these trends seems to have improved matters. To a Keynesian, this is hardly surprising, for in the General Theory it is argued that falling wages herald economic decline, not recovery. The trend in the terms of trade of export crops relatively to the general price level is mixed in the African region, but the export performance of countries in which exporters' terms of trade have improved seems no better than in countries where this has not happened. There are clearly other forces at work which render changes in the terms of trade alone of marginal significance.

It appears that in present circumstances, devaluation in most African countries would worsen income distribution while having little impact on production. This has not always been the case, for in the past rural-urban income differentials were quite large in many countries. But since the mid-1970s at least, urban dwellers (except the elite) have lost almost continuously compared to those living in rural areas. Devaluation would intensify this trend. If one can extrapolate from the evidence in this report, the likely effect of devaluation in many countries of the region would be to redistribute income from workers, peasants, and informal sector operators to the wealthy, urban and rural.

Be that as it may, those who argue for devaluation as a vehicle to "correct distortions" have a trump card. While real wages may have fallen and the urban-rural gap may have declined, does it not remain the case that urban labour markets in Africa are characterised by excess supply? And if the answer to this is "yes", then real wages need to fall more, for their prevailing level is above the "market-clearing" rate. One implication of this argument is that while it is perhaps unfortunate that real wages have fallen 65 per cent in a short period in the United Republic of Tanzania, such a judgement is subjective. On objective (optimal allocation) grounds, wages remain too high.

This argument that an excess supply of labour services (or any commodity) implies that its price is too high was discredited even a decade ago, for it is based upon a Walrasian general equilibrium model in which no exchanges occur at disequilibrium prices and (therefore) all adjustment is instantaneous.[1] Its rejuvenated appeal today reflects not an adequate rejoinder to its past critics, but a change in the general political climate in the West that makes such conservative arguments more acceptable, their theoretical shortcomings notwithstanding. One need not go into these esoteric debates to demonstrate the invalidity of this argument for African labour markets.

In African urban areas, unemployment by the definition used in industrial capitalist countries hardly exists (with the exception of South Africa). Excess labour supply does not take this form. Those who cannot find formal sector jobs engage themselves in informal activities, including casual labour. This relationship has characteristically been considered on the implicit assumption that wage incomes are higher than rural incomes and higher than can be earned in informal activities. But let us consider for the moment the interaction of different labour markets without reference to relative rewards. When wage incomes decline in real terms, households of wage earners can be presumed to seek ways of supplementing their purchasing power. One way to do this is for family members - and perhaps the wage earners themselves - to work in the informal sector. As real wages fall further, this tendency will intensify.[2] Even if wages drop very low in real terms, it would be irrational for those employed to give up their formal sector jobs, unless informal sector earnings per worker rose sufficiently to compensate for the decline in wages (not merely above the level of wages).

If incomes in the informal sector are in part a function of formal sector performance, then the fall in real wages will drive down the incomes in the informal sector. Thus, the dynamics of the labour market wil be for wage earners to hold onto their formal sector jobs as part of their strategy for protecting household purchasing power. And informal sector operators will still be attracted to formal sector jobs because of depressed informal sector earnings (even if those earnings rise above the wage level). In this context,

---

[1] The critical literature on this issue is vast. The seminal works are R. Clower: "The Keynesian counter-revolution: A theoretical appraisal", in F.H. Hahn and F.P.R. Brechling (eds.): The theory of interest rates (New York), St. Martin's Press, 1965; and A. Leijonhufvud: "Keynesian economics and the economics of Keynes" (Oxford University Press), 1968.

[2] Jamal: Uganda for an extreme and speeded-up case of this.

a drop in real wages is likely to increase the demand for both formal sector and informal sector employment. Even should the formal sector wage drop below the level of earnings in the informal sector, the result need not be a shortage of labour in the formal sector. Households seek to protect their standard of living, not make exclusive choices between the returns from different activities as a capitalist does when investing.

The problem with the usual labour market model is that it mis-specifies the supply curve. Here we are not considering the trivial case of the "backward-bending" labour supply curve, but rather how a household responds to a fall in real income. The neoclassical approach presumes that an exclusive choice will be made among income-earning alternatives irrespective of the level at which the choice must be made. This involves a false analogy with the choices made by a capitalist. The capitalist chooses among alternatives based on their rate of return (or discounted present value), but the absolute income gained from these can always be expanded by merely investing more. The situation of the non-capitalist is entirely different. A wage earner cannot by his or her own action expand the time worked on the job. Nor can he or she usually take a second job of the same type because of the institutional way in which working time is divided. The consequence of this interaction of labour markets is that falling wages need have no tendency to "clear" markets. On the contrary, an excess supply of labour can signal either that wage levels are "too high" (attracting the envy of workers outside the formal sector) or "too low" (attracting labour because the general level of incomes is low).[1] Thus the general equilibrium model of labour markets with its implicit symmetry between the labour and capital markets may prove misleading for understanding the dynamics of rural-urban interactions in Africa.

---

[1] The argument made here has some aspects in common with Clower's "dual decision hypothesis", which models the behaviour of economic agents when their choices are constrained. Falling purchasing power is one such constraint.

Appendix table 1: Index numbers of constant price GDP for 15 African countries, 1978-83

Country	1978	1979	1980	1981	1982	1983
Botswana	100	114	128	130	-	-
Ethiopia	100	105	111	118	-	-
Ghana	100	104	106	106	105	106
Kenya	100	104	109	113	115	118
Liberia	100	104	105	98	94	90
Malawi	100	103	102	97	100	104
Mauritius	100	109	118	128	127	-
Nigeria	100	98	102	100	98	91
Sierra Leone	100	106	110	114	-	-
Swaziland	100	104	112	112	111	-
Togo	100	106	101	94	-	-
Uganda	100	88	85	88	96	103
Zambia	100	97	100	106	103	101
Zimbabwe	100	102	115	132	130	131
Rising Y/P*		9/15	7/15	7/15	4/11	1/8

* Ratio of the number of countries with rising per capita income to total countries with data for that year.

Sources: United Nations: Monthly Bulletin of Statistics, July 1985; and national publications for Kenya and Zimbabwe.

Appendix table 2: Indices of enumerated wage employment in selected African countries, 1978-83

Country	1978	1979	1980	1981	1982	1983
Benin	100	102	104	-	-	-
Burindi	100	105	100	124	129	107
Cameroon	100	119	137	170	-	-
Gambia	100	108	-	-	-	107
Kenya	100	107	110	112	114	120
Malawi	100	106	109	98	102	-
Mauritius	100	101	100	99	99	97
Niger	100	100	-	95	-	-
Sierra Leone	100	97	98	97	93	-
Swaziland	100	104	105	112	109	-
Zambia	100	102	103	107	100	99
Zimbabwe	100	99	102	105	106	103

Source: ILO: Yearbook of labour statistics, 1984; and national publications for Kenya, Sierra Leone, and Zimbabwe.

Appendix table 3: Indices of wage employment in construction for selected African countries, 1978-83

Country	1978	1979	1980	1981	1982	1983
Kenya	100	111	114	111	109	109
Mauritius	100	94	76	64	57	46
Swaziland	100	104	78	85	94	-
Zambia	100	94	98	97	-	-
Zimbabwe	100	99	103	115	124	115

Source: See table 2.

Appendix table 4: Price-deflated non-agricultural average earnings for selected African countries, 1978-83

Country	1978	1979	1980	1981	1982	1983
Burundi	100	99	95	102	101	-
Cameroon	100	94	94	92	-	-
Kenya	100	102	102	105	88	81
Malawi	100	97	96	96	100	-
Mauritius	100	95	82	83	85	88
Nigeria	100	99	91	-	-	-
Sierra Leone	100	97	114	93	-	-
Swaziland	100	103	65	78	77	-
Zimbabwe	100	98	112	114	122	-

Source: See table 2.

Appendix table 5: Price-deflated average earnings in construction for selected African countries, 1978-83

Country	1978	1979	1980	1981	1982	1983
Burundi	100	86	117	105	115	-
Cameroon	100	96	91	95	-	-
Kenya	100	100	90	97	77	73
Malawi	100	92	96	71	78	-
Mauritius	100	104	92	93	91	95
Nigeria	100	83	87	-	-	-
Sierra Leone	100	102	118	125	-	-
Swaziland	100	101	69	57	60	-
Tanzania	100	94	82	-	-	-
Zimbabwe	100	98	109	117	128	-

Source: See table 2.

REFERENCES

Aboagye, A.A. Impact of recession in African countries, effects on the poor: The case of Liberia. Addis Ababa, ILO/JASPA, 1984.

Berg, Elliot. "The World Bank's strategy", in J. Ravenhill (ed.): Africa in economic crisis (Houndmills, Macmillan), 1986.

BIT/PECTA. Disparités de revenues entre les villes et les campagnes en Côte d'Ivoire. Addis Ababa, 1982.

Clower, R. "The Keynesian counter-revolution: A theoretical appraisal", in F.H. Hahn and F.P.R. Brechling (eds.): The theory of interest rates (New York, St. Martin's Press), 1965.

Collier, P., S. Radwan et al: Labour and poverty in rural Tanzania (Oxford, Clarendon Press) 1986.

Crawford, Eric; Thorbeck, Eric. Employment, income distribution, poverty alleviation and basic needs in Kenya. Geneva, ILO, 1978.

Ellis, Frank. "Relative agricultural prices and the urban bias model: A comparative analysis of the United Republic of Tanzania and Fiji", in The Journal of Development Studies, Apr. 1984, Vol. 20, No. 3.

FAO. Monthly Bulletin of Statistics, Dec. 1984, Vol. 7, No. 1.

Fapohunda, O.J.; Reijmerink, J.; van Dijk, M.P. Urban development, income distribution and employment in Lagos. Geneva, ILO, 1975; World Employment Programme Research Working Paper.

---; Lubell, Harold (with J. Reijmerink and M.P. van Dijk). Lagos: Urban development and employment. Geneva, ILO, 1976.

Fishlow, A. "The state of Latin American economics", in Inter-American Development Bank: Economic and social progress in Latin America, Report 1985 (Washington, IDB), 1985.

Ghani, E. The effects of devaluation on employment and poverty in developing countries. Geneva, ILO, Nov. 1984; World Employment Programme Research Working Paper No. WEP 2-32/WP.57, pp. 7-12.

Gozo, K.M. Effets de la récession sur l'economie Togolaise. Addis Ababa, BIT/PECTA, 1985.

--- and Aboagye, A.A. "Impact of the recession in African countries: Synthesis report" (Addis Ababa, ILO/JASPA), 1985, p. 107.

Green, Reginald H.; Jamal, Vali. Somalia: Paradoxes of private prosperity, poverty pockets, volatile vulnerability and public pauperisation (A report for UNICEF). Mogadishu, UNICEF, 1987.

Hall, Richard. "Curtain to fall on IMF power", in The Observer (London), 12 Jan. 1986, p. 10.

Hoben, Alan et al. Somalia: A social and institutional profile. Boston University, African Studies Centre, 1983; Working Paper No. SP-1.

Hoeven, Rolph van der. Zambia's income distribution during the early seventies. Geneva, ILO, 1977; World Employment Programme Research Working Paper.

ILO. Distributional aspects of stabilisation programmes in the United Republic of Tanzania: Draft report of an ILO mission. Geneva, 1985.

---. Yearbook of Labour Statistics, 1984. Geneva, 1984.

ILO/JASPA. Basic needs in an economy under pressure. Addis Ababa, 1981.

---. Basic needs in danger. Addis Ababa, 1982.

---. First things first: Meeting the basic needs of the people of Nigeria. Addis Ababa, 1981.

---. Generating employment and incomes in Somalia. Addis Ababa, 1987.

---. The informal sector in Africa. Addis Ababa, 1985.

---. Rural-urban gap and income distribution in Africa: The case of ... (three separate case studies) Ghana, Liberia, Zambia, by Dudley Jackson. Addis Ababa, 1982.

Jamal, Vali. Poverty and inequality in Nigeria. Geneva, ILO, 1986; mimeographed.

---. Poverty and inequality in Sierra Leone. Geneva, ILO, n.d.; mimeographed.

---. Rural-urban gap and income distribution in Africa: The case of ... (six separate case studies) Kenya, Lesotho, Nigeria, Sierra Leone, Somalia, Tanzania. Addis Ababa, ILO/JASPA, 1982.

---. Rural-urban gap and income distribution in Africa: The synthesis report (of six countries). Addis Ababa, ILO/JASPA, 1982; and Synthesis report of 17 countries, Addis Ababa, ILO/JASPA, 1984.

---. Structural adjustment and food security in Uganda. Geneva, ILO, 1985; World Employment Programme Research Working Paper No. WEP 10-6/WP.73.

Kilby, Peter. "Industrial relations and wage determination: Failure of the Anglo-Saxon model", in Journal of Developing Areas, July 1967, Vol. I.

Knight, J.B. "The determination of wages and salaries in Uganda", in Bulletin (Oxford Institute of Economics and Statistics), August 1967, Vol. 29, No. 3.

---. "Labour allocation and unemployment in South Africa", in ibid, 1978, Vol. 40, No. 2.

---. "Rural-urban income comparisons and migration in Ghana", in ibid, 1972, Vol. 34, No. 2.

---; Sabot, R.H. "From migrants to proletarians: Employment experience, mobility and wages in the United Republic of Tanzania", in ibid, 1982, Vol. 44, No. 3.

Leijonhufvud, A. Keynesian economics and the economics of Keynes. Oxford University Press, 1968.

Levi, J.F.S. "Migration from the land and urban unemployment in Sierra Leone", in Bulletin (Oxford Institute of Economics and Statistics), 1973, Vol. 35, No. 4.

Ministry of National Planning/UNICEF. Women and children in Somalia. Mogadishu, MNP/UNICEF, 1984.

Nureldin, N.; Thirlwall, A.P. "The IMF supply-side approach to devaluation: An assessment with reference to the Sudan", in Bulletin (Oxford Institute of Economics and Statistics), May 1984, Vol. 46, No. 2.

Republic of Kenya. Statistical Abstract (various years). Nairobi, Central Bureau of Statistics.

Repubic of Uganda. Background to the budget, 1984-85. Kampala, Government Printer, 1984.

---. Statistical Abstract (various years).

Rimmer, Douglas. The economies of West Africa. London, Wiedenfeld and Nicholson, 1984.

Schatz, Sayre P. "Pirate capitalism and the inert economy of Nigeria", in Journal of Modern African Studies, 1984, Vol. 22, No. 1.

Statistics Sweden (Claes Norrlöf). National accounts aggregates, 1977-86 (Prel.). Mogadishu, July 1987.

Suckling, John. Energy prices, development and the policy response in a small siege economy: Zimbabwe, 1964-81. Geneva, ILO, May 1983; World Employment Programme Research Working Paper No. WEP 2-22/WP.119.

---. The impact of energy price increases on an export-dependent economy: Zambia, 1970-82. Geneva, ILO, Apr. 1985. World Employment Programme Research Working Paper No. WEP 2-22/WP.147.

Tabatabai, Hamid. Economic decline, access to food and structural adjustment in Ghana. Geneva, ILO, 1986; World Employment Programme Research Working Paper.

Todaro, Michael. "A model of urban unemployment and migration for less developed countries", in American Economic Review, Mar. 1969, Vol. 59, No. 1.

United Nations. Monthly bulletin of statistics. July 1985.

Weeks, John. "The impact of institutional factors and economic forces on urban wages in Nigeria", in Nigerian Journal of Economic and Social Studies, 1971, Vol. 13, No. 3.

---. "Wage policy and the colonial legacy: A comparative study", in Journal of Modern African Studies, 1971, Vol. 9, No. 3.

World Bank. Accelerated development in sub-Saharan Africa: An agenda for action. Washington, DC, 1981.

---. Nigeria basic economic report. Washington, DC, 1981.