A NOTE ON URBAN UNEMPLOYMENT
with special reference to East Africa

by Walter Elkan*

Growing unemployment in underdeveloped countries is rapidly becoming a major concern. One ought to begin by documenting its extent, but whilst its causes are beginning to be understood, and policies advocated, its extent is very difficult to establish.

Is this simply because of the general paucity of statistics? I suggest not. With the best will in the world it would be difficult to collect meaningful statistics because one of the characteristics of underdevelopment is that "employed" and "unemployed" are not yet discrete and mutually exclusive categories. If one thinks of an unemployed person as someone who lacks the opportunity for gainful occupation - say, in Nairobi or Kampala - then it makes a difference whether he does or does not have the alternative opportunity of farm work or other work in the rural areas. The sense in which he is unemployed must vary according to his alternative opportunities, and it is probably meaningless to express in one statistic both types of unemployment, and at the same time administratively impossible to distinguish between categories of unemployed according to alternative opportunities.

Although there are difficulties of measurement, this is not to deny that it has been getting more difficult to get a job, and for two reasons. First, because the population has been increasing more rapidly than total wage employment, and, secondly, because as the competition for jobs increased those lucky enough to have a job have clung on to it, thus further reducing the number of vacancies. If, as is widely reported, turnover has declined markedly, it follows that the numbers who could obtain a job must also have declined. This poses several interesting sets of questions, of which I want to examine two:

(a) Why has the number of new jobs increased so slowly?

(b) Would urban unemployment fall if urban employment opportunities rose?

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Turning first to the question why the number of jobs has increased so slowly, one must begin by noting that there has been a fairly substantial average annual increase in GDP and an even larger increase in non-agricultural output. All earlier experience of economic growth had led one to expect a close association between economic expansion and the expansion of employment opportunities. This was certainly Great Britain's experience in the 19th century. Employment opportunities increased at about the same rate as national income in the first half of the century, and at about half that rate in the last five decades. That might still have been insufficient to absorb the increase in population, and growing unemployment may have been partly avoided by large scale emigration.[1] In East Africa and in other developing countries the number of jobs has risen much more slowly than GDP or industrial output, and, indeed, absolute expansion in employment appears to have been slower than in Great Britain during the 19th century, despite the much slower rate of population increase during the 19th century.

What are the reasons? Is it an inevitable consequence - as is often suggested - of the growing trend towards more capital intensive technologies? Is it because developing countries really have no choice but to use these technologies, because to use obsolete machines is to court disaster in a competitive world, and in any case may prove expensive if it turns out to be difficult to obtain spare parts? Many go further and argue that in the West greater capital intensity has been both cause and effect of the high real income of wage earners. It is said to be a cause because high wages make employers look for ways of displacing expensive labour by cheaper machines, and it is a consequence because the machines enable labour to produce so much more. The argument then shifts to underdeveloped countries where it is said that this technology, reflecting the industrial countries' factor proportions, is the one they should use because, if it maximizes output per worker in the West, it must do so equally in the ldc's. If, as a result, the growth of manufacturing creates little additional employment, this is treated as part of the order of nature and shrugged off as one

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[1] B. R. Mitchell and Phyllis Deane, Abstract of British Historical Statistics, Cambridge University Press, 1962.

of those unfortunate but inevitable concomitants of industrialization which, from all other points of view, surely bestows great benefits. This line of reasoning is very appealing to those who are reluctant to consider the possibility that what is here attributed to well nigh immutable forces may, in fact, be susceptible to modification by the adoption of appropriate government policies. When one recalls that "industrial" employment still accounts for less than 5% of total employment in Uganda, and even in Kenya for only 11%, it must appear improbable that these technological developments can explain more than a small part of the failure of total employment to rise.

The policies in question are those which encourage capital intensive techniques by, for example, the provision of generous investment allowances uncompensated by the equivalent of the British Regional Employment Premium. In Uganda, firms can write off 120% of capital expenditure. Another example is the failure to protect firms who provide training from having other firms benefit without cost. It must be obvious, as Michael Todaro has pointed out in his stimulating Ph.D. dissertation,[1] that part of the reason for choosing a capital intensive technique is that it economizes in the need for skilled and supervisory employees who may have to be trained by the firm. The returns to the cost of this training will be compared with the returns to the cost of buying more expensive machinery, and training costs are partly a function of the number of years the trained person stays with the firm. The greater the probability that they will be enticed away by other firms, the more the likelihood that the firm will opt for techniques that minimize the need for skilled and supervisory staff. But Government can counter this influence by treating training as an allowable expense for income tax purposes, or, better still, paying for the cost of training and financing it by a levy on industry as a whole.

Most important in stemming the tide to labour saving techniques are policies which will check increases in wages. Some may assert that employment is not a function of the absolute level of wages, but few would deny the effect of the rate of change of wages. If

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[1] Michael Paul Todaro, "Urban Employment Problems in Less Developed Countries: An Analysis of Demand and Supply", Yale University Ph.D., 1968.

that is rapid it will almost certainly cause employers to economise in the use of labour. In some situations that is no catastrophe, as when inefficiencies of management are eliminated or people hold on to their jobs longer and thus become more efficient - the textbooks refer to this as "labour augmenting technical progress". But the encouragement of the use of telephones instead of messengers, washing machines instead of dhobie wallahs, and electric fans instead of hand-operated punkhas, seems bizarre, especially in countries which are trying to hold imports down. Nor do donors of foreign aid help in the pursuit of sensible policies if they insist upon confining their aid to the foreign exchange component of projects. Who will pay unemployed people to build roads if imported earthmoving equipment can be obtained free?

In sum, an answer to the question why the number of new jobs has risen so slowly cannot be couched convincingly in terms of technological inevitability alone, but must also refer to misguided economic policies.

Turning now to the second question - Would urban unemployment fall if employment opportunities rose more rapidly? - I must again refer to a series of articles by Michael Todaro, which seem to me to have shed new light on this question.[1] Todaro points out, as many had done before,[2] that the steep gap between rural and urban pay is in itself quite enough to explain migration to towns in search of work. But he goes on to explain that this migration is

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[1] Michael P. Todaro with J. R. Harris, "Urban Unemployment in East Africa: An Economic Analysis of Policy Alternatives", in East African Economic Review, December 1968;

Michael P. Todaro, "A Model of Labor Migration and Urban Unemployment in Less Developed Countries" in American Economic Review, March 1969;

Michael P. Todaro with J. R. Harris, "Wages, Industrial Employment and Labour Productivity in a Developing Economy: The Kenyan Experience" in Eastern Africa Economic Review, June 1969.

[2] Emil R. Rado, "Wages and Employment in Uganda" in East African Institute of Social and Cultural Affairs, Problems of Economic Development in East Africa, Contemporary African Monographs No. 2, Nairobi 1965.

Dharam P. Ghai, "Incomes Policy in Kenya: Need, Criteria and Machinery", East African Economic Review, June 1968.

not solely a function of pay differentials, but also partly a function of the probability of finding a job. People are quite realistic about the likelihood that they will not find a job at once; they realize that they may have to wait, and how many go depends in part on how long it may take to find one's first job. That people measure their chances was also attested to by Caroline Hutton: she noticed the relative absence of illiterates and of people with no previous employment experience among the unemployed who were interviewed by her in Kampala, and concluded that "there was a fair degree of realistic knowledge in the rural areas about the realities of the urban employment situation".[1] In other words, urban migration is in part a function of the probability of finding a job, or of finding it in a given time, and that in turn depends on the existing level of unemployment and the rate of job creation.

If this is accepted, there follows a depressing inference, viz. that if, perhaps as a result of policy changes, the rate of job creation increases, this will not reduce urban unemployment, because as soon as it becomes known that jobs have become easier to get, the flow of migrants to the towns increases, thus replenishing the "pool" of urban unemployed - and this without any change in income differential between town and country. Some evidence of this exists from Nairobi at the time of the 1964 Tripartite Agreement, under which private employers and the Government agreed to increase their payrolls by 15% at once, on condition that trade unions agreed to accept a wage moratorium. In the event, the Government could not afford to increase its labour force, but private employers did and "this acted like a magnet attracting new workers into the urban labour market".[2]

Todaro concludes from this that if one wants to reduce urban unemployment it is no good trying to do so by the use of more labour intensive methods of production in the towns. So long as

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[1] Unpublished paper, 1970.

[2] F. H. Harbison, "Generation of Employment in Newly Developing Countries" in James R. Sheffield (ed.) Education, Employment and Rural Development, loc. cit., p. 183; also quoted by Todaro.

the rural-urban pay differential is attractive to people in the rural areas, urban unemployment cannot be reduced by providing additional jobs. Consequently, in common with Guy Hunter and many others, he opts for reducing the magnetic pull of towns by making rural areas more attractive.

Without disagreeing about the desirability of rural regeneration, I would argue that in addition it is a worthwhile endeavour to increase urban employment, not because it will necessarily reduce urban unemployment but simply because it would increase the choice open to people. If more urban jobs can be created by the pursuit of more appropriate economic policies, this is surely to be preferred.