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IMPLICATIONS OF INCOME DISTRIBUTION FOR ECONOMIC DEVELOPMENT IN EAST AFRICA

Countries of East Africa like many other underdeveloped countries have resorted to planning for the development of their economies. As a corollary to a democratic political set up of the country, planning policy is being persued in the context of a mixed economy. This is being done in many other underdeveloped countries, too. Planning in these countries is resorted to with a view to organising economic resources with the greater cooperation of the private sector in such a way that the growth force latent in these economies is released. The success, however, largely depends upon the pattern of production that takes place in the process of panning which in its turn largely depends upon the pattern of distribution of income. Faulty distribution of income, one of the main consequences of dual economy prevailing in these countries, if further perpetuated during the plan period causing far greater inequalities would harden and strengthen the existing enclave development. At the outset of developmental effort in East Africa therefore, implications of faulty distribution of income is to be seriously taken note of so that policies of planning could be accordingly formulated.

When an underdeveloped country begins to exert itself in developing its economy through planning in a mixed economic structure, aspects of distribution need equal, if not greater consideration with that of production. Existence of extreme economic inequality is an important characteristic of these economies and a pattern of conspicuous consumption resulting from the faulty distribution of income and wealth causes a harmful diversion of resources either in importing those non-priority consumer durables and other luxury goods or in building up these industries producing those goods with imported machineries and raw material, neglecting the real growth sector and thus having a very adverse impact from the point of view of creation of employment opportunities.

Thus in a policy of planning, the distribution implications of production are equally important as the production itself because the former dictatesthe pattern of production. The faulty distribution system produces bottlenecks which jeopardise the possibility of expansion of production, and thus the constant emphasis on more and more production to raise the standard of living would become an obsession, and like a people obsessed, we may overlook a vital link in the chain-that of a fair distribution of the fruits of higher productivity-and as a consequence we may miss the targetted leap forward.

As more of planned public investment would be undertaken in a predominantly private enterprise economy devoid of any measure of control or restriction of consumption, a part of nonpriotiry consumption would automatically follow even at the cost of priority consumption. This process is a bit different in Uganda and other territories of East African. Urban markets of these countries are flooded with most up-to-date but imported non priotiry durable consumer goods to satisfy the wants of the foreigners who even today not only form the overwhelming portion of the urban population in these countries but also constitute the 'U' sector (Aspects of income distribution in East Africa would be discussed in the Section II of this paper). The pattern of consumption of this class of people has influenced that of the Africans living in the urban areas and suburbs.

N.B. I am grateful to Prof. P.G. Clark for taking trouble to go through the first draft of the paper and making valuable suggestions for improving the same. Responsibilities, however, of the views expressed in the paper are entirely of the author.

These low income group people are trying to imitate the pattern of consumption of upper group even at the cost of essentials which are mostly produced within the country and in this way one of the objects of the first plan* is being defeated.

However, Africanisation has been declared as an important aim of the plan. But Africanisation alone would not solve the problem. Because mere Africanisation would mean the perpetuation of the same upper sector and the same pattern of consumption for the few persons. Moreover, upper sector always consists of limited section of the people and thus would consitute too small a market to establish industries for those upper sector consumption goods which therefore would continue to be imported. Or atleast through a policy of import substitutions some of those luxury consimption goods industries may be set up. Because of extreme income equality establishments of these industries may seem to be profitable. Thus Africanisation, unaccompanied by consumption control through import restriction and a programme for proper type of industrialisation to release growth forces as well as to cater to essential needs to the common masses, would not help achieving the object.

This is a known fact that planned development is associated with sacrifice of some part of consumption and naturally in a welfare economy, that part of consumption which at the present stage of the economy and from the point of view of the common people appears to be non-priority and expense should be sacrificed if growth force in the economy is to be released.

Pattern of consumption and the level and relative rise in disposable income are the two important variables whereby we can assess the growth and the impact of the sector. The status of an individual belonging to this sector hinges on the pattern of consumption and level of disposable incomes (case of E.Africa from this point of view is discussed in the section II of this paper). The pattern of consumption thus must have income elasticity for this group. Their consumption, as has already been stated, mainly consists of high priced articles, mainly durables. Under the circumstances, the supply of the non priority consumer durables become overwhelming in the city markets. A glance at the Kampala market, for example, would show how these markets are flooded with high priced consumer durables like cars, refrigerators, quality furniture, electrical appliances, /drawing room knicknacks, bathroom fittings, modern kitchen equipment, transistor radios, stereophonic radiograms, tape recorders, movie cameras, projectors, TV sets, most up to date cosmetics, garments, nylon goods, etc. It is needless to point out that all these goods are imported against the hard earned foreign exchange through agricultural exports which could easily have been used for importing productive machineries and raw materials to increase the productivity of the economy. Question of markets for these industries does not arise if distribution is equalitarian through state control accompanied by growth of the industries, and moreover, these industries are"must for the growth of the economy. With the growth of the economy in this way the ground may have been made ready for the establishment of important heavy and basic industries.

/for domestic use

* Another consideration which forms part of the Govt's strategy, is the need to make Uganda's economy more self-stimulating. A notable example of the possibilities in this field is the development of for protein foods-meat, milk, eggs and fish. If farmers and urban workers can be induced to increase their consumption of these foods, not only will their diet, and hence their productivity, be improved, but their expenditures will increase the incomes of pastoral farmers, poultry keeper and fisherman".
First Five Year Development Plan, Uganda. P.9

Another danger of the faulty distribution system causing the growth of the upper sector and immense expenditure on complementary durable goods is that the area of operation of the demonstration effect would have a positive tendency towards expansion, as the people who do not belong to this sector but hope to do so may save today to overspend tomorrow. The hire purchase system introduced in case of non-priority goods is anothter fillip toward this sort of consumption. This tendency is already evident not only among the 'U' sector and among Africans as a result of Africanisation but also among low income group people including those who are earning an income of Sh.120/- per month. Transistor radios, camera, watches, terrelyn and other costly suits, etc., are some of the examples of common possessions among the last named income group people. Food is not a problem in Africa even among the low income group people and therefore whatever cash income they earn, they spend on these luxury goods. Thus the govt's objective in the plan is not achieved, and thus the local economy is not being benefitted by the export earnings. Exports can lead to growth, but they need not. If they are to do so, there must be capital formation, technical change, reallocation of resources. But large potential gains from trade without capacity to make use of them will not help.

Therefore we see the increased demand for consumer durables would swallow up the possibility of future saving in an unbridled mixed economy dominated by private sector. Moreover for an underdeveloped economy it would be erroneous to consider superior level of consumption as the condition for the superior level of production because of the fact that economy of countries of East Africa is facing at present the pressing problem of need-oriented production as well as growth of productivity in the economy and the need for the spread of their benefits to vast masses. And demonstration effect causes non-need oriented development and thus outdistances the potential increases in productivity under conditions of scarce resource availability. Lastly, growth of this sector and the typical consumption pattern positively indicates the existence of potential over actual savings. And thus through proper mechanism of public finance, import restrictions and other state actions, considerable amount of internal savings can be mopped up and used for the development of the economy itself.

Another danger of this type of development is that it is a common feature in most underdeveloped economies, and so in Uganda and other territories of East Africa, that the holders of these funds looking out for outlets move in foreign exchange rather than in production investments requiring long gestation period. The dominant character of capital here, being trading and commercial rather than industrial, aggravates this tendency.

This is again causing a peculiar pattern of urban growth. Because of this type of development devoid of any impact of industrialisation as well as modernaisation and institutional changes in rural areas the rapid growth of population* is creating a problem of urban growth. The rapid influx of migrants from rural areas resulting from the absence of opportunities of employment in the stagnant rural economy to a small number of cities which are also devoid of sufficient opportunities of productive employment, exerts a growing pressure on the existing urban facilities which in turn put a heavy strain on the necessity of diverting the country's resources into the rapid growth of these facilities.

<u>Annual rate of Growth of Population</u>

Uganda	2.7%
Kenya	3%
Tanganyika	2.5%

If the ability to raise new resources is limited (and this is undoubtedly a fact), then the decision to divert existing scarce resources in order to accommodate the pressing demands of the growing urban population does imply that,alternative opportunities to use these resources for more promising lines of investment for economic growth are forgone. Moreover, such a course of action has the 'built-in' consequence that, if sucessful, the growth of the urban facilities may become an ever more powerful force over and above the force of poverty creating larger and l rger waves of migrants into cities which painfully enough and obviously, are incapable of giving their productive employment. Thus a self accelerating process of urban growth though not in terms of productivity, may develop by an ever increasing proportion of the countries valuable resources being channeled into meeting the unrestrained drift towards cities. These trends are already visible in important cities of East African countries.

The rapid increase in urban population can thus be looked upon not merely as a demographic phenomenon but rather as part of the whole strains and tensions which is in-herent in a social change unaccompanied by corresponding pace of economic growth in terms of industrialisation and modern-isation of agriculture. However, this is to be pointed out to avoid being misunderstood, that while the process of urbanisation is not a consequence of growth in productivity, the objective of an urbanisation policy is not how to stop or reverse the process, since the trend towards an increase in urban population is not only irreversible, but also necessary for the process of economic and social development.

Section II: Monetary Income Distribution. †

In this section we may take a brief not of the present situation of income distribution in East Africa. We would however like to keep our discussion confined to some aspects of monetary income distribution Because, from the point of view of our main contention in the paper that faulty distribution of income affects the economic growth of an underdeveloped country through its unfavourable impact on consumption pattern as discussed in the previous section is reflected in monetary income and its distribu-tion with the modernisation of economy. Non-monetary income has got little to do with this type of consumption and thereby the diversion of resources. Thus it is found that the under-developed countries begin to face the problems of expanding areas of demonstration effect, [illegible]ving non-priority consumption and increasing deversion of re[illegible]urces in these channels (mostly involving foreign exchange resources), with the growth of the modern sector accompanied by monetisation.

In connection with the present situation of income distribution in East Africa we would like to refer to a paper of the EDRP, by D.P. Ghai.* The relevant tables from the paper are given below as ready reference. The study under reference reveals, though, roughly, a picture of inequality in income distribution(monetary) in East Africa. Vide-Table Nos. I, II & III.

An important point to be noted here is that income differences as revealed through employees earnings analysis are due to differences in education, skills, and experiences. Men with higher education, technical and professional qualifications and skills, business acumen, adminstr tive qualifications etc. are very scarce in supply and this situation has acted as one of the main factors behind the great inequalities of income among employees.

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* " Some Aspects of income Distribution in East Africa"EDRP 52.

† I am thankful to Dr. C.R. Frank for making valuable comments on this section.

An attempt to study faulty income distribution in this way alone has got obvious limitations. An analysis of concentration of wealth in the form of ownership of business houses and industries, interlocking directorship of business houses and industries, volume of bank balances, ownership of residential buildings etc., may have revealed the more important side of the distribution of wealth and income.

Still the fact that remains is that inequalities in income not only inter-racial but also among Africans themselves are very large. And this is having its obvious impact on consumption pattern(discussed in the section - III).

One distinctive feature of distribution of income in East Africa which should be pointed out in this connection is that it is closely correspondent with the racial distribution of population i.e., Europeans constitute higher income group with Asians and Africans falling in middle and lower income groups respectively. With the Europeans has come also their pattern of consumption of their highly developed countries which has been and is being imitated by next income groups in the heirarchy. It has been discussed above that with the modernisation of the economy accompanied by monetisation the area of operation of demonstration effect would go on expanding swallowing up whatever saving that could have accumulatted in the economy during the process of development, whereas economic productivity remains rooted in the backwardness.

Section III: <u>Consumer Durables Import:</u>

An idea with regard to the trends in non-priority consumption can be formed from a study of the import data. It is to be noted that in East Africa most of the manufactured goods both consumer and producer goods- are imported. However we are studying here a few but important of the non-priority consumer goods as given below in the table no.IV to show the trends in and the level of conspicuous consumption that takes place in an economy where per capital income is even less than half of $100 which is considered as a bare minimum for human living.

From the table IV of a selected few of these imported non-priority consumer durables one can realise what a huge amount of foreign exchange earnings of these countries are being consumed away every year instead of being utilised for the development of the country. This table also reveals a very high rate of increase in imports of these goods. Of this group of consumer durables motor vehicle imports take the biggest share of foreign exchange involved in such consumption. Even this figure would be higher if other imports accompanying motor vehicles are included as would be evident from the table.

However as percentages of all consumer goods as well as of total imports, these selected items appear to be very small as the table no.V shows. This is so because a very negligible number of items (being only seven) out of total number of non-priority consumer goods in comparison with total number of items involved in all imports as well as in all consumer goods have been selected for the study and as such their shares do not seem to be negligible. More so because of the fact that in East Africa almost all the manufacturing goods and also a considerable quantity of food items are imported every year.

Yet this table brings out an important fact that these seven items of consumer durables are taking an increasing share of the total consumer goods imports every year and also of all imports. Another point to be taken note of in this connection is that imports of these items taken together are rising by 64% and 67% respectively in Kenya and Uganda from 1961 to 1963, and by 37% in Tanganyika. Whereas during the same period, the rates of increase in all consumer goods and all imports respectively are 22% and 13% in Kenya 7% and 16.6% in Uganda 13% and 11.5% in Tanganyika.

An examination of these data showing rates of change in imports of these types of consumer durables, all consumer goods and also total imports from 1961 to 1963 would point out to a fact that in course of time the built - in consequence of this pattern of consumption would act as a serious constraint to the development of the economy as explained above as well as a source of psychological frustration.

Govt. Policy Implications:

I. As in many other developing countries, Governments of East Africa may have to follow a policy of import restrictions with regard to those consumer goods which are non-essentials - from the point of view of the present level of national income as well as heavy foreign exchange involving. Resources thus released can be used for importing capital goods which would help import substituting industrialisation process and thereby would create opportunities for productive employment.

If these imports are thus curtailed, and thereby their consumption, savings potential in the economy would increase and Governments can mop up these savings by launching National Savings Movement in the form of National Savings Bonds and Development Savings Certificate Schemes.

Moreover this would mean the expansion of the taxable capacity of the country. Thus steps to raise the existing rate of income tax and also to impose sales taxes on some consumption goods usually consumed by the higher income groups can be taken.

II. It is found from the import data that of all consumer goods the automobile import involves the highest amount of foreign exchange. It is to be noted however, that the services of automobile are indispensible to day in any country but not in the form of private cars in an under-developed countries like those of East Africa. And thus these can be substituted in these economies by an expanded Bus Transport Services.

Expanded Bus Transport Services would mean both the extension of routes and area of operation as well as greater number of vehicles plying more frequently to cater services to the growing number of users, This may be organised in some form of state controlled corporations.

Economic gains: (1) This would help the Govt. in restricting the consumption of one of the most costly items i.e. cars, without at the same time causing shortage of supply of this essential service to the people. Foreign exchange thus released can be used productively by importing producer's goods etc.

(2) Greater revenue would accrue to the Government through the increased earning of the State controlled transport corporation which may be used for development plans etc. incourse of time.

(3) Greater employment opportunities would be created. It would enable the Govt. to absorb the growing number of unemployed people especially those who have got some form of education roaming in the cities for domestic jobs and other odd jobs. As there is already in operation a net work of but transport organisation there will not be much difficulty in its expansion as well as imparting training to the people to be recruited as drivers, conductors, office workers etc. Some form of construction work would also increase absorbing more men.

(4) Accruing of increased incomes in the hands of Africans through planned development of the economy and as a result of the policy of Africanisation of trades and services rightly envisaged by the Governments would mean increased demand for cars (resulting from the demonstration effect of the existing condition as well as the absence of adequate public transport service) encouraged by easily available opportunities offered by hire-purchase systems. In this way this would cause, if supply of cars goes unrestricted a serious leakage of increased income on such non-priority consumer durables. Saving would not grow and the import bill on these accounts would go on rising. An expanded public transport service in such a situation catering more extensive and intensive services and meaning less transport cost to the people would enable them to spend more on better food and education and also something more to save.

(5) There is also a psychological benefit for the society as . whole to be achieved in this way. It would do away with one of the main factors causing frustration and discontent among the people the bulk of which are not able to afford these goods at the present moment.

Thus if these goods are substituted by imports of capital goods and technical know-how for establishing expanding industries essential at the present economic condition and modernising agriculture through state undertakings corporations and private enterprises, this may benefit the economy in the form of achieving (1) comparatively rapid pace of growth, (ii) greater opportunities for employment, (iii) Africanisation and equalitarian distribution of income in a more rapid effective and productive way.

Table -- I

Countries	Africans	Non-Africans
Uganda	£12	£344
Kenya	£7	£424
Tanganyika	£9	£413

Table -- I A,

Non-Africans as percentage of total population and their incomes as percentage of the Total monetary G.N.P.

Countries	Non-Africans as% of total population	Non-African income as % of total income
Uganda	1.4.%	26 %
Kenya	3.0 %	60 %
Tanganyika	1.5.%	38 %

Table -- II

African Males Employees by wage groups, 1963

Wage Groups Sh.Per month	% Africans (a) Uganda	(Tanganyika
up to 149 /	66 %	66.4 %
150/ ---- 499/	28 %	31.1 %
500/ and above	6 %	2.5 %

Source (a) Enumeration of Employees, June, 1963,Govt. of Uganda.

(b) Eugene Lee -- Local Taxation in Tanganyika, 1964. (c.f. Ghai's paper)

Table -- IIA,

Kenya
% of Africans

Wage Groups -£ Per year	Private Industry and Commerce	Public Services
up to £119	66.6	60.4
£120 -- 239	26.7	30.9
£240 -- 359	3.8	4.8
£360 and above	2.9	3.9

Source: Stat. Abstract, 1964.

Table - III Percentage of Tax payers per income bracket in Kenya by race, 1962.

Income Groups	Africans	Asians	Europeans	Arabs & Somalis
Under £120	91.4%	11.0%	1.5%	86.0%
£120 ----£159	4.7%	4.3%	3.2%	7.2%
£160 ----£199	1.7%	3.3%	0.6%	1.9%
£200 -----£399	1.7%	13.0%	2.5%	2.0%
£400 and above	0.5%	68.4%	92.5%	2.9%

Notes: (a) A majority of adult males not covered by personal tax may safely be assumed to be unemployed or falling in the lowest income brackets.

(b) However these figures as an index of income distribution suffer from the usual limitations of any date based on tax returns.

Source: Kenya Treasury and Development plan,1964-70 Kenya (Cf. Ghai's Paper).

Table IV

Trends in imports of seven selected consumer durables

Selected Consumer Durables	KENYA 1961	KENYA 1962	KENYA 1963	KENYA % change 1961/1963	UGANDA 1961	UGANDA 1962	UGANDA 1963	UGANDA %change 1961/1963	TANGANYIKA 1961	TANGANYIKA 1962	TANGANYIKA 1963	TANGANYIKA % change 1961/1963
1. Refrigerators	96506	115782	172236	74%	41203	41130	68875	67%	57873	95377	11780	103%
2. Table recorders (for domestic use only)	15154	7916	25997	71.5%	4714	8979	16063	240%	7243	20007	25827	256%
3. Radio-grams	373039	396038	724340	92.6%	238470	25550	37950	59%	197581	333497	422492	113.8%
4. Camers+	359176	366799	421667	17%	78175	100278	112740	44%	77264	126034	129508	67.6%
5. Electric Appliances for domestic use	77040	77096	136365	69%	30955	30912	37661	21.6%	51644	47260	56555	9.5%
6. T.V. Sets	-	690985*	152170		-	100308*	125188		-	83225*	3000	
7. Passenger Motor Vehicles	2056255	2994977	3257811	58%	889253	1385841	1743873	73%	1239498	1238498	1640858	32%
Total:	2980160	4647593	4890695		1282770	1692998	2142350		1631101	1943898	2395820	
7a. Motor vehicle-accompanying imports+	3039203	3414647	3548671		2141482	2077230	2514916		2537892	2599353	2639010	
7b. Motor vehicle total (7+7a)	5095458	6409624	6806482		3030735	3463071	4258789		3777390	3837841	4279868	

Footnotes to Nos. 4 & 7. above.

4. Cameras (including films and chemical products for use in photography)

7a. i.e. 1. motor spirits, 2. frames chasis, bodies. 3. tyres & tubes.

Source: Annual Trade Report on Kenya, Uganda, and Tanganyika, 1961, 1962, 1963.

* The figures include the value of total number of T.V. sets imported upto December, 1962.

Table V Selected seven Consumer Durables as percentage of total Consumer Goods Imports and All Imports

Teritories	As Percentage of all consumer			As Percentage of all Imports		
	1961	1962	1963	1961	1962	1963
Kenya	9%	14%	12%	4%	7%	7%
Uganda	9%	14%	14%	5%	8%	8%
Tanganyika	9%	10%	11%	5%	5%	6.5%

Sources: (op.cit.)

'able - VI Percentage change in all Imports, all Consumer goods Imports and in imports of selected seven consumer Durables, 1961 - 1963.

Territories	change, 1961-1963		
	All Imports	All consumer goods imports	Seven selected consumer durables (taken together)
Kenya	13%	22%	64%
Uganda	16.6%	7%	67%
Tanganyika	11.5%	21%	47%

(Sources:OP. cit)