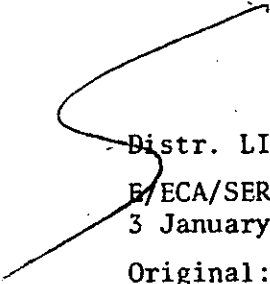


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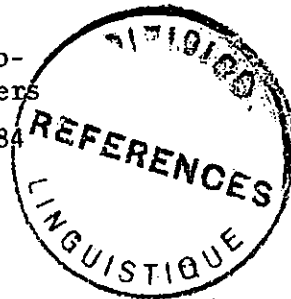
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Expert Consultation on a System of Socio-economic Indicators for African Planners

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CONCEPTUAL FRAMEWORK FOR IDENTIFYING LABOUR AND EMPLOYMENT AS
INDICATORS FOR SOCIO-ECONOMIC DEVELOPMENT PLANNING

CONCEPTS: EMPLOYMENT UNEMPLOYMENT, DISGUISED UNEMPLOYMENT

LABOUR FORCE, WORK AND PAY

Standard definitions of unemployment put the accent on one crucial aspect: an individual must be involuntarily unemployed, and he is considered to be so if he is unable to find a job at the going wage rate for his skill level. Unemployment comes about whenever there is a maladjustment in the supply and demand for labour for given skill categories. It may be temporary (cyclical) or more permanent (structural) such as the displacement of labour due to technological change. Full employment, then is said to be achieved for any society whenever there is no unemployment beyond frictional unemployment: that is, whenever cyclical and structural unemployment is eliminated. In addition to the various types of unemployment, an individual is said to be under-employed whenever he supplies less labour than he would, voluntarily, at the going wage rate for his skill level. ^{1/} In order to eliminate total subjectivity in the definition of underemployment, however, reference is usually made to normal working hours.

It should be clear from the above that:

- (a) the accent in employment, unemployment and underemployment statistics is on wage employment.
- (b) For an individual to be meaningfully employed as opposed to underemployed or misplaced, his actual wage rate must be close or equal to the going wage rate for his skill level.
- (c) self-employment is unemployment (or at the very least underemployment or misplacement, if it is involuntary).

The measurement of unemployment or underemployment is quite sensitive to the reference period:

Present methods of measurement classify a person as unemployed if he is looking and available for work and has done no work (or very little work, say less than 5 hours of work) during the specific week designated by the survey, usually the week prior to the survey week. If some other reference period is selected the composition of the unemployed group may be different. ^{2/}

^{1/} See for example, Milton H. Spencer, *Contemporary Economics*, Worth Publishing Inc., New York, 1971 (p. 128).

^{2/} Harry T. Oshima, "Unemployment and Income Growth in Less Developed Economies: The Asian Case", in *Economic Development: Readings in Theory and Practice*, edited by T. Morgan and G. Betz, Wadsworth Publishing Company Inc., Belmont, California, 1970 (p. 278).

We address ourselves to the concepts of labour force, work, pay and the notion of "disguised unemployment" later. Already, however, it is obvious that for employment, unemployment and underemployment to lend themselves to precise and unambiguous measurement, one needs to presuppose:

1. A highly organized, monetized and industrialized economy in which the process of proletarianization of labour is very advanced.
2. An economy in which the dichotomy between capital and labour (ownership of means of production and the sale of labour power as the only alternatives for earning a livelihood) is sharp and stable. For, to the extent that the process of concentration of capital is still ongoing or, (as is more characteristic of African economies) primitive accumulation is dominant, "involuntary proletarianization" is bound to be a major feature of the socio-economic formation. This will necessarily blur the distinction between structural and frictional unemployment.
3. An economy in which labour markets are sufficiently well-developed and where there is close to perfect information on wage rates for given skill levels. This is crucial because it is difficult to classify unemployment due to unrealistic expectations of labour, (i.e. to situations where labour refused proposed employment in the hope of obtaining a job at a higher wage than his skills entitle him to) and the phenomenon is more widespread in "newly emergent" countries and especially among the educated new entrants to the labour markets.

It is to the credit of traditional concepts of employment, unemployment and underemployment, that the notion of productivity of labour plays only a marginal role in the determination of the status of labour. In the first place, the problem is conveniently assumed away through the implicit/explicit assumption of profit maximizing behaviour on the part of employers. Since the demand for labour (like the demand for all factors of production for that matter) is a derived demand, it is concluded that labour would be employed if the value of the marginal product of labour were not at least as great as its wage rate. This means, for example, that the underemployment can be determined solely by comparing the number of hours an individual actually works with the number of hours he would have liked to work at the wage rate for his skill level, without any reference to his productivity. Further, even though neo-classical economists may be the first to admit that wage levels are dependent on as many "extraneous factors" (minimum wage legislation, the power of trade unions etc.) as on the purely "objective factors" of supply and demand, the effect of the "extraneous factors" is to lead to excess demand or supply (i.e. maladjustment of supply and demand) in the labour markets. What this means, concretely, is that in seeking to measure employment, underemployment and job misplacement, the data that the economic-statistician needs are: hours worked, wages and qualifications. An individual, then, is fully employed if he is able to obtain a full-time job at the going wage rate for his skill level. Otherwise, he is either unemployed, underemployed or misplaced. Note that competition and profit maximizing behaviour exclude wage payments above skill levels while the earnings of owners of capital can always be justified under "entrepreneurship" or "risk-taking" i.e. "justified by their contribution to the process of production".

Even in highly organized, monetized, and industrialized economies, the concepts of employment, unemployment, work, pay and underemployment increasingly fail to capture economic realities and, more importantly, evade measurement. With the development of the "Underground Economy" provoked by the big bite of taxation in social democratic societies, the sale and purchase of labour power increasingly take place outside the structured labour markets, (with increasing resort to barter) thus creating an economic-statisticians nightmare.

Transposed to developing countries, and African social formations in particular, it is an understatement to argue that "they cannot fully capture the economic realities in Africa nor the dynamics of production in the subsistence/agricultural and informal sectors." The problems here are many. The first is that the concepts of labour force, employment and unemployment are applied to developing countries with extreme difficulty. The typical case is that incomes in the non-modern sectors and wages, even in the modern sectors, are so low that large portions of the population who would normally be classified outside the labour force, must obligatorily contribute to the production process. This is the case, especially for school children:

even in urban areas, students and housewives, defined to be outside the labour force are likely to work for a few hours

per day, especially in family enterprises. These problems

relating to the concept of labour force and employment do

exist in developed countries but are of relatively minor im-

portance. Such problems are much greater in most underde-

veloped countries. There is a wide, gray zone between employment

and unemployment (and those in and out of the labour force) and

any attempt to measure the size of the unemployed labour force

is likely to be somewhat arbitrary. 1/ (our emphasis).

The second set of problems are due to attempts by the mainstream economists to introduce new concepts of human resource utilization, which supposedly provide a better picture of the labour process in developing countries. One such concept, for example, is the notion of "disguised unemployment", the argument being, that since developing countries are neither highly organized, monetized nor industrialized, (and labour markets are characterized by imperfections, and profit-maximizing behaviour is singularly absent in large sections of the economy), it is illegitimate to exclude the measurement of "labour productivity" in discussions of optimal utilization of human resources.

In fact the mainstream literature on employment in developing countries start with the following premises:

1. The subsistence/agrarian sector is characterised by "unlimited" supplies of labour

2. The orderly progression of events entails the transfer of this surplus labour (along with the surplus agricultural products released by this labour) from agriculture to a nascent but dynamic and high productivity modern/industrial sector. This transfer is more or less spontaneous and is provoked by the real income gap between the rural and urban areas.

1/ IBID, (p. 278)

3. The transfer leads to economy-wide increasing productivity of labour terminating, with the completion of the absorption of the surplus agricultural labour by the modern sector, in the "commercialization" of agriculture:

Only when the disguisedly unemployed have been absorbed ... does the marginal contribution of labour to output become as great or greater than the institutional real wage. As a result, it is then to the advantage of the landlord to bid actively for labour; the agricultural sector can be said to have become commercialized as the institutional wage rate is abandoned and competitive market forces yield the commonly accepted equilibrium conditions..... With the completion of the disguised unemployed, there will occur a switch, forced by circumstance, in employer behaviour, i.e. the advent of fully commercialized agricultural sector. This landmark may be defined as the end of the take-off process. We know no other way to establish a non-arbitrary criterion for an economy reaching the threshold of so-called self-sustaining growth. 1/

This is the Arthur Lewis model, subsequently formalized by Ranis and Fei, and is meant not only to be descriptive of a specific type of transition from underdevelopment to development, it is presumably the only path. It corresponds to the "orderly progression of events" and is characteristic of optimal human resource utilization in the socio-economic development process. The near-unanimous acceptance of this model is such that writing in October 1983, an author could confidently assert that:

"It is not debatable whether the famous Lewis model of development with unlimited supplies of labour is relevant or not". Rather, if the orderly progression of events as envisaged by the model has not been attained "despite the fact that many development plans have predicated on the objectives of transferring resources out of agriculture to the industrial sector as suggested by the model", it is because not enough effort has been exerted by governments on expanding the industrial/modern sector base.

This base should be recognized as being in the productive sector and not necessarily in the non-productive public sector. Despite the crucial place of wage employment in a modernizing capitalist economy, the wage earning productive sector does not provide a wide enough base for creating employment of the magnitude required by the current trend of labour force growth. 2/

In fact not only did the Lewis model elevate wage employment as a critical and positive indication of the progress towards a modernizing economy but, by introducing the concept of disguised unemployment, it introduced a phenomenon that is much easier to define in narrow economic terms than to verify its existence or to measure.

1/ Gustave Ranis and John C.H. Fei, "A Theory of Economic Development" in Morgan and Betz, Op Cit., (p. 93)

2/ The NISER Econometric Model of the Nigerian Economy: Analysis of Model and Results; Coordinator, Akinola Owusekun, Ibadan, 1983.

Note that disguised unemployment is said to exist whenever the marginal productivity of labour is zero, near-zero or, perhaps, even negative. For the first time therefore, the notion of productivity is given a central place in the definition and measurement of a type of unemployment.

The phrase "disguised unemployment" was coined by Mrs Robinson and used to designate workers, who having lost well-paying positions in industry to which their skill and training entitles them, are doing odd jobs, raking leaves or selling apples to eke out a miserable living.

In its Arthur Lewis metamorphosis:

This problem has been the subject of much discussion, partly because disguised unemployment is almost impossible to measure. If such unemployment did exist in any significant degree, some nations would have deliberately shifted such workers out of agriculture into non-agriculture. But I know of no case where this has been done except in Mainland China during the 1959-1961 Great Leap movement. Agricultural output fell sharply partly as a consequence of this shift and subsequently the policy has been reversed. 2/

Other empirical evidence exist on Africa would seem to suggest that agricultural output is highly elastic with respect to labour thus implying that the assertion of zero marginal productivity of labour in the subsistence/agrarian sector is more myth than reality. 3/ Luckily, the economic statisticians of the developing countries usually simply assume that the phenomenon of disguised unemployment does exist and then they calmly proceed to compare the rate of growth of employment in the modern sector (usually relatively easily obtained), with the rate of growth of the labour force (normally the population growth rate) in order to ascertain "the growing unemployment problem". The argument being, that only the modern sector can be relied on to absorb existing unemployment and the new additions to the labour force.

* An alternative method consists of estimating the income-employment growth coefficient, for any two years for which GDP and Employment figures are available. The coefficient defined as $\frac{GDP_1 \times EMP_0}{GDP_0 \times EMP_1}$ gives us the rate of growth of GDP associated with a 1% growth in employment. This coefficient multiplied by the actual rate of growth of the labour force, tells us how much GDP must grow in order to absorb all the new entrants to the labour force. See, for example Oshima.

1/ Haberler, "Unemployment in Underdeveloped Countries" in Leading Issues in Development Economics, edited by Gerald M. Meir, Oxford University Press, New York, 1964. (p.77)

2/ Oshima, Op. Cit., (p. 278)

3/ See the NISER Econometric Model, Op. Cit., for estimates of the elasticity of agricultural output with respect to labour.

It is to the credit of the International Labour Organization to have forced governments and economic statisticians to come to terms with the existence of a large "sector" of the economies of developing countries (which is neither agrarian nor modern but coexists with the latter mainly in the urban areas) and which is more likely than not to be the sector to absorb labour "released from the agrarian sector". This is the so-called "informal sector".

Of course, the term informal sector is itself ambiguous and subject to varying definitions depending on who describes the sector. In fact, it is no exaggeration to say that the sector is better defined by what it is not than by what it is i.e. neither agrarian nor modern. In a study on Zambia by the ILO, a reader is forced to conclude that the sector embraces a wide range of productive activities: carpenters, tinsmiths, tailors, welders, leather workers etc., small scale construction, especially, housebuilding, retail trade in a wide variety of goods from charcoal to household implements, vegetables to soap powder, and services including the repairing of shoes, bicycles, cars, machinery, watches and radios. It can easily be ascertained, therefore, that it is a "sector" that embraces a hodge-podge of activities from traditional handcrafts (probably subject to competition from the modern sector) to new activities (for example, radio and watch repairs) which are complementary to the modern sector productive activities. It is this feature of the sector that makes it dangerous to speculate on the origins and causes for the explosion of this sector.

In fact, one may justifiably question whether there are any unifying characteristics in the activities listed above, that entitle us to group them into a "sector". Definitely, the studies which exist so far on the African informal sectors do not permit us to readily isolate any unifying characteristics: this is because they are micro-empirical and descriptive studies and which, for the most part, exhibit an aversion to any "theorizing" which would enable us to characterize the sector or to capture the dynamics of production within it. It is not unusual, therefore, for a reader to come across as many so-called "characteristics" of informal sector activities as there are researchers, productive activities in the sector, as well as countries studied. Based on studies on manufacturing enterprises in Lusaka, for example, a reader may be tempted to conclude that informal sector activities are characterized by low costs of operations, smallness in size, frozen technology, low incomes for informal sector operatives as well as catering mainly, but not exclusively, to low income groups. Based on a study of the Gambian informal sector, however, the accent may rather be on output/capital ratios, employment generation and import intensities, all of which may vary considerably depending on the country and the productive activity studied.

We believe, however, that the only objective way to define the sector is on the basis of the nature of the labour process: informal sector operatives are usually owner/proprietors and they rarely resort to wage labour for any considerable periods of time. "Employment" in informal sector establishments consists almost exclusively of

1/ Zambia: Basic Needs in an Economy Under Pressure. ILO/JASPA, Addis Ababa, 1981. (p. 32)

2/ See, for example, George Aryee, "A Study of the Gambian Informal Sector" Unpublished Manuscript written for ILO/JASPA, Addis Ababa, 1981.

3/ ILO/JASPA, "Zambia", Op. Cit., (P.32)

family members and apprentices. It is this feature that makes the economic-statisticians, (convinced as he is of "the crucial place of wage employment in a modernising capitalist economy", as well as the difficulty of data gathering-specific to the sector) blind to employment in this sector.

In fact, the point of departure for the economic-statistician is: "almost certainly a major expansion of informal sector employment has occurred to fill the gap between rising numbers and declining formal sector opportunities" 1/ and from this optique, a number of observations and policy recommendations naturally follow:

a) Informal sector activities are involuntary and the operatives are wage labourers-in-waiting. The implication of this is that the labour force for the modern sector cannot be defined to include only those engaged in or looking for work in the modern sector productive establishments but are unable to find them. It includes informal sector operatives as well, the argument being, that while they may not be actively looking for work in the modern sector they will almost certainly accept employment if appropriate jobs became available.

b) As "gap-filling" activities they are, naturally, characterized by low productivity, low incomes, in turn due to low capital intensity and frozen technologies.

c) The solution, therefore, is to expand employment in the productive modern sector or make credit and other facilities available to the informal sector in order to increase capital accumulation and thus improve labour productivity.

We contend that while it may be true that some informal sector operatives (especially those engaged in low volume, low income retail and unskilled service activities) may in fact be wage labourers-in-waiting, the hypothesis that there exists a negative correlation between employment in the informal sector and the employment base in the modern (formal) sector, is yet to be seriously tested. Clearly, there are a number of activities in the informal sector which are complementary and thus respond positively to the dynamism of the modern sector. The obvious activities being: the skilled services, (bicycle, shoes, car, machinery, watches and radio repairs) which are best organized on a small scale basis; the retail trades and the productive activities which cater to the low income modern sector employees. If this is the case, then it is clearly unjustified for the economic-statistician to view the sector as "transitory" i.e. likely to disappear with the expansion of the employment base in the modern sector. On the contrary, there is growing evidence that informal sector activities are closely linked to the modern sector:

There are important input and output linkages found in many cities of developing countries between formal and informal sector activities. Subcontracting is widespread, for instance in Indian cities (1978 World Bank data compiled by E. Bevan Waide and Christine I. Wallich) inputs from modern sector whole salers or markets are typically required even for street vending, small stores and artisan repair shops. 2/

1/ Johannes F. Linn., *Cities in the Developing World: Policies for their Equitable and Efficient Growth*, A world Bank Research Publication, Washington, 1983. (P.40)

2/ ILO/JASPA, "Zambia", *Op. Cit.*, (p.40)

II. The Labour Progress in African Social Formations: Salient Features of Employment and Problems of Measurement in the Subsistence/Agrarian, Informal and Modern Sectors

From the foregoing discussion, it is clear that in order to determine the ability or inability of a society to optimize the use of its human resources in the socio-economic development process, it is necessary, first to identify the nature of the labour process in each of the various "sectors" as well as the interrelations between them. True, that in some of the sectors, the employment problem may pose itself as simply the lack of sufficient opportunities for gainful wage employment. In others, however, wage employment may scarcely be relevant. Rather, the employment problem may pose itself as long and arduous hours spent by labour in productive activities without labour being able to reproduce itself. This is why it is necessary to put a special emphasis on the inter-relationship between forms of employment in the various sectors of the economy. We are convinced that invariably the problem of employment in one sector cannot be treated in isolation from employment in the other sector.

The Subsistence/Agrarian Sector

As we argue above, the assumption that the subsistence/agrarian sector is characterized by "labour surplus" is almost definitely unjustified. The evidence, in fact, would seem to indicate that the contrary is the case: in countries where agrarian capitalism is well advanced, agrarian capitalists either have to rely on migrant labour, or impose on the state, policies which forcibly dispossess the peasantry in order to oblige the latter to sell their labour power. The case is well documented in Southern Africa, Kenya, Ivory Coast and elsewhere.

To the extent that it is true that the rural areas are rapidly being depopulated as females and children increasingly take up the major burden of farm maintenance; the men going into urban centres in search of wage employment - it becomes difficult to accept the validity of the assumption that labour in agriculture is characterized by zero or negligible marginal productivity. In addition, there are a whole host of economic and social activities carried on in the rural areas (house maintenance, fence building, land improvement, small scale livestock and poultry farming, communal labour etc... during and outside the farming season) which necessarily contribute to the reproduction of labour but escape narrow economic measurement.

We suspect that the problem in the subsistence/agrarian sector is not so much one of unemployment, underemployment or "disguised unemployment", but one of altering the conditions of production in such a manner that agriculture can become a remunerative full-time occupation for the vast majority of rural inhabitants, as is already the case for a handful of emergent agrarian capitalists.

In some cases, this may involve land reform. We suspect, however, that in the vast majority of cases, this will entail: improved economic technologies, better farm-gate prices, improved rural communications network, better extension services and, more importantly, industrialization strategies supportive of the process of modernization in the agricultural sector. In a recent publication on East Africa in Zambia, the ILO argues:

A binding labour constraint is one of the reasons for rural

poverty. For this reason, industry has a priority to ease rural

poverty by increasing supplies of improved tools and drudgery-saving equipment. It is easy to produce a list because the needs of the majority of subsistence farmers are so glaring: traditional tools (hoes and axes etc.); as well as improved ones, such as ox equipment (ploughs, scotch carts etc.); simple irrigation pumps; pipes; wheelbarrows etc.; and drudgery-reducing tools for food processing (cassava peelers, maize and cassava grinders, maize shellers etc.); cooking equipment; bicycles and bicycle spare parts; tools for carpenters and blacksmiths; tailors, barbers, etc. The list is never-ending and is well within the capability of the industrial sector.

What this means is that there is no possible solution to the problem of improving the nature of the labour process and the rewards to labour in agriculture, if treated as an isolated problem. Rather, the problem of employment in the agricultural sector must be seen in relation to the whole strategy of development.

The Informal Sector:

Having characterized this sector by the nature of the labour process, the rare resort to wage labour, it is also possible to add a few more characteristics which are generally, though obviously not always, true of informal sector operatives. Among these are: the absence of formal records and the near impossibility of distinguishing between working capital and the operative's income. The evidence, however, is quite strong that

Entry to the activities carried out by the poor and the jobs held by them is not always unrestricted nor are these activities or jobs necessarily unregulated or untaxed by the government.

Similarly, tax payments or licence fees are legally required for informal sector activities, in most cities. Of course, the degree of evasion of these taxes and licence requirements is generally substantial.

We argue above that it may be erroneous to consider the expansion of informal sector employment as "filling the gap between rising numbers and declining formal sector opportunities". In fact, there is evidence (especially in countries which have been the hardest hit by the crisis of the seventies and early eighties, Ghana, Sierra Leone, Nigeria, Tanzania, Uganda etc.) that formal sector employment is rapidly losing its lustre as an alternative to informal sector activities, especially in the retail trades, black marketeering and speculation in the real estate markets. This is because formal sector wages have been unable to keep up with the dizzying rates of inflation whereas a producer in the informal sector, or a retailer, is able, normally, to capture part of the retail margin which often moves in tandem with the rate of inflation. In fact, in many instances, formal sector employment is sought only as a camouflage, as means of gaining or maintaining access to relevant ministries, or sources of supplies, or for reducing the risks (through a regular wage) inherent in

1/ ILO/JASPA, "Zambia", Op. Cit., (p. 91)
2/ Johannes F. Linn., Op. Cit., (p. 39)

informal sector activities. The result has been a growing and lengthening chain of intermediaries especially in the areas of transport, real estate and distribution.

What this means is that it increasingly becomes untenable to equate informal sector activities with activities engaged in by the poor. It does not mean, however, that there are no employment problems in the sector. One obvious problem is that of the "apprentice" who normally does not receive a wage and may be kept on much longer than is necessary for him to acquire the skills of the trade. Objectively, it is in the interest of informal sector operatives to minimize the threat of potential competition by prolonging the period of apprenticeship as much as possible. Further, barriers to entry in certain activities may also have a similar effect. In addition, it is a legitimate question to pose, especially within the framework of optimal use of human resources in socio-economic activities, as to whether all informal sector activities, regardless of incomes that can be earned, should be treated on the same footing. Concretely, this means that tabs should be kept on activities which are truly productive and essential for an efficient and orderly distributive systems, as opposed to merely parasitic.

This is easy to pose as general guidelines or criteria for the determination of the optimal use of human resources. In practice however, there are dangers to hasty actions. Unpleasant surprises are many; and cases where "obviously parasitic" activities were brutally suppressed only to have catastrophic consequences for the productive and distribution systems, are too many to cite. What this means is that there are no alternatives to in-depth studies of the various activities that can be grouped under the informal sector and their intra-sectorial linkages. Surveys, simply for enumerating the number of operatives involved in each activity, the incomes earned, as well as the sizes of operations and the qualifications of individuals involved are not only likely to be inefficient but the results are likely to be most misleading. For, objectively, informal sector operatives have no interest in revealing such information or even admitting their involvement in given lines of operations.

The Formal Sector

Formal sector employment, whether public (in administration or productive public enterprises) or private, usually pose very few problems as far as the measurement of levels, hours of work, pay etc. are concerned. As far as optimal utilization of human resources is concerned, however, it is necessary to go beyond simple enumeration and to analyze the nature and types of employment.

In most African countries, public sector employment accounts for the preponderant part of formal sector employment. This has its advantages: the impact of the economic crisis of the seventies and the eighties on formal wage employment has not been as dramatic as could be expected due to attempts by most states, to keep unemployment within manageable limits by expanding or scarcely reducing the volume of their services as well as maintaining overmanning in most parastatals. In addition, labour legislation in many countries make it difficult for private sector enterprises to expand or contract employment in line with the level of economic activities and the degree of capacity utilization. The disadvantages (a necessary corollary of the "advantages") is that underemployment in formal sector activities is likely to be a serious problem especially in times of low economic activity. "Job misplacement" especially in public enterprises, is a problem in many countries.