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LABOR MARKET PERFORMANCE IN KENYA: THE IMPORTANCE OF INSTITUTIONS

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I. INTRODUCTION

A. PLAN OF THIS STUDY

Kenya is one of the two or three best documented African economies. It has attracted wide attention because it has been taken by many to be the leading exponent of capitalist-development in the Continent and has been relatively hospitable to expatriate scholars. The outcomes of development strategies and policies as they bear on employment, income, and poverty have been studied by economists, political scientists, sociologists, anthropologists, social psychologists, urban planners geographers and educationists. Indeed employment policy has been a central concern of politicians, technocrats, and the International Donor community for the last 25 years. The range of policy recommendations that have been made to Kenyan authorities, and the programs and policies that have been attempted is wide and bewildering in complexity. Yet most diagnoses and policy prescriptions have flowed from relatively simple notions of the determinants of employment and have failed to take account of many important institutional factors.

The purpose of this study is to examine how Kenyan labor markets have worked in recent years and identify the role that specific institutions have had on mediating the impact of various policies. A second purpose is to set employment policies and labor-market performance in context of the economic, political, and physical forces within which they operate. Finally, we will try to show how the institutional context can and should be taken into account in formulating policy.

The rest of this section will describe how the "employment problem" has been percieved in Kenya and how labor-market policies have evolved over the past three decades. Section II will outline the Kenyan economic, geographic, and institutional setting, and Section III will describe the evolution of overall development strategies and performance, therby completing the descriptive background of the context in which labor markets function.

Section IV begins the description and analysis of the functioning of the labor market with a quantative look at evolution of employment, wages and productivity. The importance of specific labor-market institutions is explored in Section V and the development of employment policies over time described in Section VI.

The final section, VII, attempts to draw the empirical material together, to draw conclusions about how Kenyan labor markets have actually functioned, and derive implications for policy and for further research.

B. THE EMPLOYMENT PROBLEM IN KENYA

The first major statement of economic strategy in independent Kenya was the 1965 Sessional paper No. 1, African Socialism and its Application to Planning in Kenya in which President Kenyatta stated in the preface: "Our entire approach has been dominated by a desire to ensure Africanization of the economy and the public service." That document resolved that strategy would "attack directly the two principal limitations on growth, i.e. shortages of domestic capital and skilled manpower, in order to increase the growth potential of the nation."[1] Elements of that strategy would include the revolutionization of agriculture, development of industry, building of infrastructure, and "to provide for a more equitable distribution of the benefits achieved."[2] Thus employment was seen as a means of ensuring Africanization of the economy and distributing the benefits of development. The main labor-market task was to step up investment in human capital in order to attack from the supply side the shortage of skills. A manpower plan was shortly adopted which was to guide an ambitious program of educational expansion.

By mid-1966, warnings were being given that educational expansion was not simply an answer to manpower shortages. Indeed, open unemployment of school leavers in the major urban areas was becoming evident and both knowledgeable observers and policy makers joined in analyzing the problem and proposing major shifts in educational and labor-market

1 Republic of Kenya, African Socialism and its Application to Planning in Kenya, (Nairobi: Government Printer, 1965). p.48.

2 Ibid. p.48

policies.[3] Although the diagnoses and prescriptions were quite varied, the main thread running through the arguments of the day was that the content of schooling was failing to impart the skills and attitudes needed for successful labor absorption in rural areas and that the supply of young persons with schooling to the urban areas was vastly in excess of the numbers that were needed.

Politicians increasingly viewed the problem as one of youth being attracted to the "bright lights" of Nairobi and Mombassa, and by 1968 urging young people to return to the rural areas for "nation building" was a staple of political speeches and newspaper editorials. The papers of Harris and Todaro in the late 60's drew attention to the role of differential real wages between rural and urban areas in causing migration to be a rational response by individuals even in the face of open unemployment in urban areas.[4]

Thus by the early 70's there was an emergent concensus about the nature of the (un)employment problem and a

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3 The proceedings of a conference held at Kericho in September 1966 became an influential publication that set the terms of most disussions of policy for at least a decade. It appear as Sheffield, John (ed.) Education, Employment, and Rural Development, (Nairobi: East African Publishing House, 1967).

4 John R. Harris and Michael P. Todaro published a series of papers: "Urban Unemployment in East Africa: An Economic Analysis of Policy Alternatives," East African Economic Review (Dec. 1969); "Wage Policy, Industrial Employment, and Productivity in a Developing Country: The Kenya Experience," East African Economic Review, (June 1969); and "Migration, Unemployment, and Development: A Two-Sector Analysis," The American Economic Review, (March 1970).

prognosis for likely developments in coming years. First, there was no doubt that the labor force would be growing at a rate of about 3 percent per annum with an increasing proportion of new entrants having significant amounts of formal schooling. Second, given feasible rates of investment and continued growth of labor productivity in the modern sectors of the economy, labor absorption would lag far behind new entrants to the labor force, much less "mop up" existing levels of un- and under-employment. Educated youth not employed in the modern sectors of the economy would nevertheless migrate to the major cities due to the finite probabilities that they would eventually find employment so that open unemployment was likely to increase substantially.

In 1972 the International Labor Office sent a team that prepared an influential report notable for its "discovery" of the informal sector.[5] They argued that the informal sector and small-scale peasant agriculture were the sectors

[5] I.L.O. Employment, Incomes and Equality: a Strategy for Increasing Productive Employment in Kenya (Geneva: ILO, 1972). This was the first appearance in the literature of a serious analysis of the role of what is now understood to be the urban informal sector and did much to change policy-makers perception of the sector. Previously, they viewed all such activities as parasitic or, at best, underemployment. This is not to say that no one knew that productive activities existed in such a sector. For example, the collection of papers in the volume edited by John Hutton, Urban Challenge in East Africa, (Nairobi: East African Publishing House, 1972) including J.R. Harris, "A Housing Policy for Nairobi" implicitly described the sector as productive. But it is important to understand that explicit analysis of the phenomenon made it "respectable" to bring it into the policy arena.

in which most labor was and would continue to be absorbed; that these humble and neglected sectors actually used scarce factors efficiently; and that they were needlessly and inappropriately disadvantaged in access to markets, credit, and other inputs and harrassed by licensing athorities.

During the following decade surprisingly little altered in the way in which the employment problem was conceptualized and understood. In 1982 a Presidential Committee on Unemployment was formed, chaired by Maina Wanjigi, which reported in May 1983.[6] They stated "we have assumed the problem to be of a much bigger scale than is depicted in published statistics. The Committee has identified the following major causes of unemployment in Kenya, namely, the very rapid growth of the labour force; the inability of the economy to grow at a rate that would create enough jobs for the growing labor force; job selectivity among school-leavers; seasonality of some of the industries; skills imbalance which has resulted in vacancies co-existing with surplus labour; inappropriate technological applications; and failure of development programmes to focus on areas with the greatest employment creation potential."(p.9)

This latter sentence reflects exactly the concensus that existed 12 years earlier and it has a coherent logic.

6 Republic of Kenya, Report of the Presidential Committee on Unemployment: 1982/83, (Nairobi: Government Printer, May 1983).

Yet, there is now reason to believe that the failure of the published statistics to convey fully the assumed picture may well be because the nature of the problem has changed. The statistical picture will be analyzed in Section IV and an argument will be developed in Section V. that important changes have taken place -- partly because of policy changes and partly because of institutional processes that are at best imperfectly understood.

C. THE EVOLUTION OF LABOR MARKET POLICIES

Labor market policies reflected directly prevailing understandings of the nature of the employment problem. In the first years after independence emphasis was placed on expanding employment opportunities in the government sector, of replacing non-citizens with citizens in such spheres as rural trading, of providing loans to local entrepreneurs, of restricting visas for expatriate workers so as to force private firms to train Kenyans, and edcuational opportunities were created partly in accord with a manpower plan.

As criticism of schooling surfaced and open unemployment was recognized as a problem, attempts were made to change the content of education to make it more "relevant" to rural development and to conform more closely with the manpower plan. However, this was more easily said than done. Demands for more post-primary education that would equip young persons for advantageous employment in the burgeoning government sector were expressed through a national eruption of local-initiative "Harambee" school building.

Another approach was moral suasion by politicians for young people to leave the cities and return to rural areas. The pleas fell largely on deaf ears. However, there were attempts to enforce "vagrancy" laws in which individuals in towns having no regular employment could be dispatched back to their home area. Various forms of "pass laws" were seriously proposed, but non ever implemented. Another way of dealing with the problem of the urban poor was to prevent them from living in the towns and squatter settlements which were repeatedly bulldozed or burnt to the ground by authorities.[7]

An other approach to solving the employment problem were announcements of Tripartite agreements between the trade unions, private employers, and government in which there was to be an immediate expansion of employment by the latter two coupled with agreement to freeze wage demands by the unions. The first such agreement was announced shortly after independence in 1964 and others were attempted again

[7] Part of this is described in various articles in Hutton, op.cit. Useful insight into the emergence of urban policy is also found in Richard Stren, Housing and Urban Poor in Africa: Policy, Politics and Bureaucracy in Mombasa (Berkeley: Institute of International Studies, 1977).

in 1970 and 1978.[8] The general concensus is that these measures were ineffective in alleviating unemployment.

Following acceptance of the ILO report, some subtle changes in policies began to occur. Over a period of three or four years agricultural policy clearly shifted from primary reliance on the large-farm sector to provision of greater incentives to small holders. More important, permission began to be given for the break up of large farms into small holdings -- a movement that had been stoutly resisted under the impression that scale economies were significant and that the large-scale european-type farm was necessary for efficiency.

As of August 29, 1973 Wages and Incomes Guidelines were promulgated by the Ministers of Finance and Labor instructing the Industrial Court to scrutinize negotiated wage agreements between private employers and unions and to approve only those increases that took into account the relationship between wages in the formal sector and earnings in informal and agricultural sectors. As inflation began to increase in the mid 70's, the Guidelines were amended on several occasions making it official policy to grant less than full cost of living adjustments so long as real wages

[8] These agreements are analyzed in Sheffield, op.cit; in detail in Ian Livingston, Rural Developmnent, Employment and Incomes in Kenya, (Addis Ababa: ILO Jobs and Skills Program for Africa, 1981), Ch. 9; and by Francis Stewart, "The Tripartite Agreement in Kenya," in D. Ghai and M. Godfrey (eds) Essays on Employment in Kenya, (Nairobi: Kenya Literature Bureau, 1979).

in formal sectors exceeded those in other sectors.[9]

The autonomy of trade unions was considerably curtailed following a spate of strikes in 1979. In a Labor Day speech' President Moi warned that "'legal' strikes could occur only after all other avenues of negotiation had been exhausted and that 'illegal' strikers would be dealt with seriously by the courts."[10] Thus the right to strike was virtually eliminated and the trade union movement brought under control of government.

During the mid 70's there was a large increase in direct government investment in parastatal enterprises and even more in a wide range of joint venture agreements with multinational firms. This was largely justified in terms of increasing investment in order to expand employment in the industrial sectors and ensure Kenyan control of the economy. An industrial location policy was implemented providing both incentives and direct government allocations to new industries locating outside of Nairobi and Mombassa.[11] During the coffee boom of 1976-78 this was particularly

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9 The Evolution of this policy is described in some detail by Saeed R. Coker in The Kenya Industrial Court: Origin, Development and Practice,(Nairobi: Longman, 1981) Ch. 8. Coker has been the presiding judge of the Industrial Court in Kenya from inception in 1964. His book gives an interesting account of the mandate given the court and its evolution over time from a legal institution reflecting British labor law and industrial relations procedures to a more Kenyan institution more concerned with development.

10 Miller, op.cit., p.91.

11 See Clay Wescott, Industrial Location Policies in Kenya, (Boston University unpublished Ph.D. Dissertation, 1983). [check title and date]

feasible.

But after collapse of commodity prices and the second increase in oil prices, austerity had to be imposed. Real wages fell most rapidly in that period under the guidelines outlined above while there was some rationalization of employment. Levels of protection were reduced in many industries as policy attempted to make the industrial sector more efficient and competitive. This was also made more difficult by the break up of the East African Common Market in 1978 which further depressed industrial production.

Thus the broad evolution of labor market policies from the early 70's through the mid 80's has been first an increase and then a decrease in direct government-led investment justified in large part by its employment-creating potential and contribution to regional balance. There has been a slow but steady relative shift since the mid 70's to reduce the degree of favor in protection and pricing enjoyed by large-scale enterprises in industry, commerce, and agriculture. At least some of the discrimination against small-holder agriculture and informal sector enterprise has been reduced.

At the same time there has been a general tendency for rural-urban or informal-formal sector wage differentials to be eroded under policy guidance based in part on belief that existing differentials militated against efficient labor absorption.

II. THE SETTING

A. THE COLONIAL HERITAGE

Kenya came under British Rule in the latter years of the 19th Century. The dominant feature of Colonial rule was the fact of large-scale settlement of whites, mostly English, but including a number of South Africans (Afrikanners) as well. The organization of the Colony was not unlike that in South Africa and Southern Rhodesia -- the other two colonies of substantial White settlement. The key features of settler-control included the alienation of large tracts of land; a set of policies designed to provide a ready supply of low-cost wage labor to the farms; an elaborate set of taxes, quotas, subsidies, and credit allocation that served to protect settler commercial agriculture; restriction of educational opportunities to the black population; and far-ranging and pervasive laws of racial discrimination. This legal and administrative structure extended into the early 50's. Attention was drawn to black nationalist aspirations through the Mau Mau rebellion, and despite considerable internal differences between the settler community in Kenya and the Colonial Office in Whitehall, agreement was finally reached to transfer power to an independent Kenya in December 1963.[12]

While the politics and economics of settler domination were the centerpoint of conflict, two other aspects of the Colonial economy are important to keep in mind. First, the role of the large-scale trading, banking, and manufacturing firms from Britain came to dominate the non-agricultural "modern sector" and were frequently in conflict with settler interests. Second, the lower-clerical and technical jobs in the modern sector were filled by "Asians" (originating from India and Pakistan), a group who had come to East Africa early in this century and came to dominate retail and wholesale trade, small scale manufacturing, and transport.

The net result was a society with white control of government, commercial agriculture, and the large-scale modern sector; Asian control of commerce and middle-level white-collar employment; while black Africans were relegated to unskilled jobs in the cities, wage labor in commercial agriculture, and small-scale self employment in agriculture

[12] An excellent account of the institutional nature of Colonial Rule is found in David Gordon, Decolonization and the State in Kenya, (Boulder: Westview Press, 1986). I useful capsule view is found in N.H. Miller, Kenya: The Quest for Prosperity (Boulder: Westview Press, 1984), Ch. 1. An excellent account of the independence movement is Carl G. Rosberg, Jr. and John Nottingham, The Myth of Mau Mau: Nationalism in Kenya (New York: Praeger, 1966).

in the "reserved" areas.[13]

Not surprisingly, the appeal of the independence movement was to Africans who hoped for opportunities to advance their economic role, to gain access to land, to obtain education, to be allowed to contract loans and grow cash crops (which had been prohibited to Africans). Some sectors of the Asian Community joined the movement as they also felt the restrictions of racial barriers to full participation in the economy.[14]

Kenya was joined with Uganda, which was formally a British protectorate, and Tanzania, a former German colony mandated to Britain after W.W.I, in an East African administrative federation for provision of essential services including tax and revenue collection, posts and telegraphs, harbours, railroads, electricity and power, and later sea and air transportation. This arrangement became institutionalized into the East African Common Services Organization and accompanied formation of an East African

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13 The best analytic description of the evolution of the labor force in Kenya is Paul Collier and Deepak Lal, Labour and Poverty in Kenya: 1900-1980, (Oxford: Oxford University Press, 1986) Chapters 1-3 where they divide the history into three eras: coercion, 1800-1948; compassion, 1948-68; and competition, 1968-1980. This same experience is described rather differently in neo-Marxist perspectives by Sharon Stichter, Migrant Labour in Kenya, (London: Longmans, 1982) and Colin Leys, Underemployment in Kenya: The Political Economy of Neo-Colonialism (London: Heinemann Educational Books, 1975).

14 A particularly good classified bibliography is in Joel D. Barkan and John J. Okumu, Politics and Public Policy in Kenya and Tanzania, (Nairobi: Heinemann Eduicational Books, 1979). Another is in Miller, op.cit.

Economic Community upon granting of independence to the three constituent countries. This framework of economic management and control was largely run from Nairobi and Kenyan interests were dominant in such matters as location of facilities and providing jobs for administrative officers.

The reason to belabor this background is that it has dominated the evolution of economic policy since independence and will continue to do so for many years to come. The dominant reality of the Colonial heritage was the institutionalized limitations to full African participation in the economy and society. The appeal of the independence movement was a promise to redress these long-standing wrongs, and the exercise of power since independence has been largely directed to fulfillment of the promise (albeit with limited success and changing content).

Changing policies can be partly explained in terms of the different structures that were hoped to allow fuller African participation in the economy. This has been particularly clear with respect to private enterprise in general and the role of multi-national corporations in particular. Expanded roles for small and medium-scale private-sector activity have been tempered by concern about the ability of resident Asians to dominate, thereby limiting possiblitites for successful African response. Relations with multi-nationals have been tinged with concern about the ability of such firms to perpetuate neo-colonial relationships whereby few benefits and oportunities to learn and compete successfully are afforded to Africans. As such, the State has been seen as the protector of African rights. Not only has the state played a regulatory role in this regard, it has also intervened directly by creating productive units. Since the early 70's the role of state ownership in a range of fully-owned parastatal enterprises and in a large number of joint ventures has meant that government directly or indirectly has been the major employer in the formal sectors of the economy and has thereby had direct impact on hiring and promotion criteria, wages, and working conditions. Variations in policies over time have been determined in important ways by pragramtic judgements about the likely outcome in terms of African advancement and control of the economy.

B. NATURAL RESOURCES.

Another set of characteristics to be taken into account is the endowment of physical, geographic, and human resources. The country has not yet demonstrated significant deposits of mineral resources, although petroleum exploration is continuing and there are hopes that commercially-viable deposits may be found in the northeast. An ambitious program of geothermal energy development has been initiated and there is significant hydroelectric potential.

The principal natural resource of is land. Areas of fertile volcanic soils receiving relatively dependable rainfall appear as islands separated by long stretches of arid and semi-arid lands. There are high-potential land areas in the Central highlands, extending for about 100 miles north of Nairobi, and in the highlands west of the Rift Valley extending west to Lake Victoria.[15]

Two features of these areas must be noted. Either they are very densely settled and cultivated, or they are extremely remote from existing population centers, and all are distant from ports. The Central highlands and Lake Victoria regions of Kenya are among the most densely settled and utilized agricultural areas of the African continent. While the less developed highland areas of the Western Rift (notably Trans Nzoia and Uashin Gishu) have potential for further intensification they are far from extensive infrastructure and population centers and their intensified settlement involves considerable political risk of conflict between Kalenjin groups, which claim that area as their territory, and Kikuyu, Luhya, and Luo groups now experiencing great land pressure in the areas which they occupy.

Since Kenya still has only 17% of its population in

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15 A standard refernce is Simeon H. Ominde, Land and Population Movements in Kenya, (London: Heinemann, 1968). A more analytic treatement is that of Edward Soja, The Geography of Modernization in Kenya: a Spatial Analysis of Social, Economic and Political Change, (Syracuse: Syracuse University Press, 1968).

urban areas, it is clear that population distribution is dominated by rural settlement. However the main urban centers are located near areas of traditional rural population clustering. Nairobi, Thika, Nyeri, Nanyuki, Embu, and Meru are in or on the edges of the Central Highlands. Kisumu and Mombasa are the traditional urban centers of the Lake Victoria basin and Indian Ocean coast areas respectively. Partial exceptions are Nakuru, Eldoret, and Kitale which were centers for European settlers in the Rift Valley and the areas immediately to the West.

The geographic distribution of these high potential areas, and the corresponding population concentrations, makes economic development involving increased specialization and trade among regions highly dependent on efficient long-distance transportation. Given the need to import all petroleum and virtually all transport equipment, this has made the economy necessarily dependent on imports. Thus, the story of import substitution and development of high potential areas has also been one of increased dependence on imported fuel, equipment, and spare parts. This is somewhat alleviated by the proximity of Nairobi to the high potential agricultural areas of Central Province for internal trade but it is extremely important in terms of strategies that involve significant imports or exports of staple foodstuffs since the Port of Mombassa lies far to the east. It also gives a high indirect foreign-exchange input requirement into the production of the basic foreign-exchange earning commodities.

The conclusion is that the geography of Kenya imposes transportation requirements that make its economy extremely dependent on essential imports of fuel and transport equipment and vulnerable to increases in the price and availability of these commodities. Successful development and intensified use of high-potential land resources will most likely increase further dependence on imports.

C. HUMAN RESOURCES

The other principal resource is human potential which, after all, turns out in all countries to be the most important developable resource. It has already been mentioned that at independence most middle-and high level manpower was Asian or European in origin simply because Africans had not been afforded educational opportunities in significant numbers. At independence, development of this underutilzed resource was given highest priority.

Indeed, progress in both health and education are the most significant achievement since independence. Policies of extending basic health facilities to rural areas have achieved dramatic increases in life expectancy from 41 in 1960 to 55 in 1979, although the absolute level is still low by international standards.[16] However, a side effect of the successful attack on maternal and infant mortality has been

[16] Accelerated Development in Sub-Saharan Africa, Table 34, p.177.

a dramatic increase in of population growth.[17] While there have been small declines in apparent fertility rates, Kenya is estimated to have a population growth rate near 4% per annum. Given the weakness of the statistical base for these estimates, one does not want to be excessively precise about the rates -- that they are high and have risen dramatically in the past two decades is unmistakeable. While average population densities still appear low relative to Asian standards, the pressure on high-potential land is great, and prospects for further intensification through irrigation are limited. Furthermore, the pressure on resources generated by requirements for housing, health, and education services to a population growing at these rates is enormous. Efforts to mount effective fertility-reduction programs are only beginning to be taken seriously, and prospects for dramatic progress are poor.[18]

Significant achievements have been made in education with achievement of almost universal enrollment in primary school and literacy rates have risen among the young. While

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17 A particularly interesting analysis of the relationsips between economic growth, education, health, and the demographic transition, see David Wheeler, "Female Education, Family Planning, Income, and Population: A Long-run Econometric Simulation Model" in Nancy Birdsall (ed) "Three Cross-country Analyses of the Effects of Organized Family Planning Programs on Fertility" World Bank Staff Working Paper No. (1985).

18 Note the discussion of the world population problem as the major theme of the 1984 annual meeting of the World Bank and IMF in which Kenya featured as one of the most dramatic potential "horror stories." See in particular the <u>World Development Report 1984</u>, (New York: Oxford University Press for the World Bank, 1984), Part II.

there has first of all been emphasis on achieving universal primary education, Kenya has also made enormous strides in expanding secondary education. Although there was intention to restrict such expansion in line with a manpower-planning approach to education and concern with creating a potentially unemployable pool of secondary school leavers, widespread spontaneous "Harambee" (self help) movements throughout the rural areas resulted in construction of secondary schools providing more than five times the planned level of secondary school places by 1972, with irrestible political pressure being placed on government to take over the staffing of the schools that had been created by local initiative. The result is that while Kenya had only some two per cent of the eligible age group enrolled in post-primary education in 1960, the proportion had risen to 18% by 1977.

Following from these investments, Kenya has become more self-sufficient in medium- and high-level manpower and has moved to a position of a surplus of potential entrants into higher education in technical areas. A further result is pressure in Kenya for further expansion of University-level education reflected in announced plans for the creation of additional Universities.

In many ways the most dramatic development has been the creation of a small but very competent group of overseas-trained (mostly Britain and US) Africans occupying key technical positions in the bureacracies and Universities who are coming to have important inputs into policy making. (This point will be developed further in later sections.)

D. THE SOCIO-POLITICAL FRAMEWORK

Although we described the major ethnic groups in the colonial context as European, Asian, and African, there is also much diversity among each of these groups. Just as there were and are deep differences in economic interests between Europeans who were settlers on the land as opposed to those who were civil servants, administrators and manufacturers; and between the various ethnic groups particularly Afrikaaners and English; so there are differences of ethnicity, economic interest, and political allegiances between different groups of Africans. Journalists are all too quick to brand these differences as "tribalism" as though enthic conflict was a throwback to a "primitive" past. It is more reasonable to think about much of present day ethnic (tribal) conflict as being a reflection of competition for resources and influence within the modern state.[19]

The largest African ethnic groups originate in the major fertile "islands." the Kikuyu along with the closely-

[19] A classic statement of this case is that of Aristide Zolberg, Creating Political Order in African States ( ) who likens African ethnic-based politics to creation of urban political machines in late 19th Century America. An interesting analysis of the Kenyan situation is found in Donald S. Rothchild, Racial Bargaining in Independent Kenya, (London: Oxford University Press, 1976).

related Embu and Meru peoples come from the central highlands and it was in that area that most land alientation by European settlers occurred resulting in these people being confined to densely-settled "native reserve" areas. The Luo originate in the Lake Victoria basin, and the the Luhya from the higher areas just north of Luo country, the latter having reached extreme settlement densities in recent years. The principal group occupying the Coast is the Swahili, having both Arab and African origins. The large semi-arid regions of the country were traditionally used by pastoral peoples some of whom combined livestock rearing with low-intensity farming. These groups include the Kamba from the plains east of the Central Highlands, the Masai from the Rift Valley to the west of the Central Highlands, and the several Kalenjin groups West of the Rift Valley and northeast of the Lake Victoria basin.

Having the greatest land pressure and contact with European settlement, the Kikuyu were the most active in the struggle for independence and were the base of the "Mau Mau" movement.[20] Several Luo were also prominent in the independence movement, particularly Oginga Odinga, the first Vice President of independent Kenya and Tom Mboya the Minister of Planning who was assassinated in 1969. This ethnic background of political organization was important in shaping the politics of independent Kenya and politicians had to use office to generate visible benefits for their

[20] See Rosberg and Nottingham, op.cit.

base constituencies.

The result has been that political and bureaucratic office holding has been of overriding significance both for individuals and for groups in Kenya.[21] During the first thirteen years of independence, the Kikuyu clearly dominated government and complaints about the "Kikuyu clique" were rife, particularly on the part of prominent Luo who had seen the banning of their principal political party in 1968 and the asassination of Tom Mboya in 1969. After the death of President Kenyatta, the then-Vice President Daniel arap Moi, a Kalenjin, succeeded to the office in November 1978 and was elected to the presidency in November 1979. Miller argues that this represented a new era in Kenyan politics.[22] It is not clear that it was a new era but rather that new players became important in the same game.

> Politically, Kenya is a heirarchically organized, patron-client system with brokers and go-betweens as important elements. Power flows from the top, from the Office of the President, through both formal and informal institutions. Kenyan politics has a rough and tumble aspect, seen in the brokerage process and in the open contests for favors, contracts, and jobs. A "Horatio Alger approach" characterizes young Kenyan politicians. With up-by-the-bootstraps, free-wheeling attitudes, they eagerly compete for ifluence in the

[21] Miller, op.cit. makes a strong case succinctly for the central importance of the patron-client state. A particularly good analysis of Kenyan politics that still wears well is that of Henry Bienen, Kenyua: The Politics of Participation and Control, (Princeton: Princeton University Press, 1974).

[22] Miller, op.cit., chapters 4 and 5.

> political party, labor unions, the parastatal bodies, and numerous informal societies. Within the bureaucracy the civil service is a governing elite, and although there is talent and dedication here, a sizable number of bureaucrats, especially administrators and teachers, carry on moonlighting activity. Conflict-of-interest rules are not a major concern. The practice leads to slowdowns in daily operations and to inefficiency and ill-defined policies. The system has been described as "disjointed incrementalism," a piecemeal approach to solving problems. The positive side to such free-enterprise politics is that local profits are often plowed back into the society; the negative side involves political opportunism, waste, and bureaucratic inefficiency.

A final point to note is that there were virtually no significant private concentrations of wealth among the African population at the time of independence. While there was certainly social differentiation within groups, the nature of economic activity open to Africans, institutions of common ownership of land, and the patterns of inheritance did not allow the formation and perpetuation of extremely wealthy families or individuals as was the case in Asian and Latin American societies tradionally organized in rigid heirarchies. Although some accumulation of wealth had taken place in the Asian trading communities, and the main sources of private wealth that could be mobilized for local investment was through the foreign-based corporations and trading groups, the major concentration of local wealth and power in the Colonies was in the state and access to that wealth or wealth-creating potential was obtained through political power as had been evident by the actions of the European settler community.

The creation of an African elite has not, therefore, been determined by family wealth. Instead, the avenue to power has been through Western education into politically-connected exercise of power within the apparatus of the State. Access to Western education was a largely random process depending on where mission schools were established. It was the importance of edcuation in affording socio-economic mobility that prompted the enormous efforts of sacrifice by rural masses through the Harambee movement in Kenya to develop schooling opprtunities.[23]

In Kenya, education and political connections have been used to create privately-controlled assets so that the importance of the state in creating opportunities for private accumulation must be noted. And the crucial mechanism for such asset creation has been public employment.

The central social mechanism is the extended family. Traditionally, land was held by such extended units and privatization of land through individual title is most

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[23] See the useful chapters by Frank Holmquist, "Class Structure, Peasant Participation, and Rural Self-Help" and David Court, "The Education System as a Response to Inequality" in Joel Barkan and John Okumu (eds.) Politics and Public Policy in Kenya and Tanzania, (Nairobi: Heinemann Educational Books, 1979).

advanced in Central Province and still not fully implemented in many other parts of the country. Even under individual title, extended families are the operative units for mobilizing resources for purchase and operation of farms; are significant for raising money for schooing of children; provide the principal sources of advice and finance for migration; and are important in many ways for establishing "contacts" with the modern sectors. We will analyze the functioning of extended families in more detail in a later section, but suffice it to say here that it is a dominant feature which modifies somewhat the the outcomes of what otherwise appears to be individual strategies for economic advancement.

III. DEVELOPMENT STRATEGIES AND MACROECONOMIC PERFORMANCE

There has been remarkable continuity in devlopment strategy in Kenya since independence. Sessional Paper No. 1 of 1965[24] outlined the basic aims of development -- mobilize resources for growth that will benefit the African population -- which continue to guide policy. Changes have been evolutionary representing adjustments when external circumstances changed or when there was clear need for rationalization of existing policies because they were not working as intended.

The principal emphasis of each of the development plans

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[24] Republic of Kenya, African Socialism and its Application to Planning in Kenya, (Nairobi: Government Printer, 1965). p.48.

has been to raise the rate of investment in order to provide capacity for growth. For many purposes it will be useful to divide the recent history into two periods: 1964-72, post-independence growth under relatively stable international conditions and low inflation; and 73-83 which included the coincidence of drought and the first oil shock in 74-75, a short-lived coffee boom in 76-78, and the second oil shock and sharp decline in terms of trade in 79-83 with severe drought also recurring in 82-83.

Table 1 presents data on performance of the Kenyan economy in those two periods and the main findings are graphed in Figure 1. It shows clearly the decline in average growth of real GDP in the latter period; the sharp decline in the rate of growth of investment from the extraordinarily high rates in 64-72 of almost 16% per annum to 1.2% on average in 73-83. Conversely, the rate of employment growth in the wage-paying sectors increased from 2.8% to 3.7% per annum. By definition if output growth declines while employment growth increases, average productivity of labor must decline which is what the data say happened.

Table 2 presents the annual data for the 1964-83 period some of which is summarized in Figures 2-5. Figure 2 shows the relation between levels of real GDP and investment over the entire period. However, the relation of the two series in absolute scale fail to reveal the relative growth of investment which is much more clear in Figure 3 where both variables are plotted in logarythmic scale. The dramatic relative rise of investment in the 64-72 period is evident while there is substantial fluctuation and little trend in the investment series from 73 to 83. It is also interesting to note the growth of wage employment in Figure 3. The divergence between the growth rates of GDP and employment through 1970, with relative acceleration of employment growth thereafter is evident.

TABLE 1.

AVERAGE ANNUAL GROWTH RATES OF MACRO AGGREGATES
KENYA: 1964-83

INDICATOR	1964-72	1973-83
REAL GDP	6.0	4.4
INVESTMENT	15.9	1.2
LABOR FORCE	2.7	2.8
WAGE EMPLOYMENT	2.8	3.7
LABOR PRODUCTIVITY	2.9	0.3
INFLATION (cpi)	2.7	14.0
AVG. CROP PRODUCER PRICE	-0.7	13.7
AVG. WAGE	5.0	11.9
PRIVATE WAGE	5.2	13.5
GOVT. WAGE	3.7	9.7

SOURCES: Calculated in part from above data and part from World Bank World Development Report, 1986.

TABLE 1.

AVERAGE ANNUAL GROWTH RATES OF MACRO AGGREGATES
KENYA: 1964-83

NDICATOR	1964-72	1973-83
EAL GDP	6.0	4.4
NVESTMENT	15.9	1.2
ABOR FORCE	2.7	2.8
AGE EMPLOYMENT	2.8	3.7
ABOR PRODUCTIVITY	2.9	0.3
NFLATION (cpi)	2.7	14.0
VG. CROP PRODUCER PRICE	-0.7	13.7
VG. WAGE	5.0	11.9
RIVATE WAGE	5.2	13.5
OVT. WAGE	3.7	9.9

OURCES: Calculated in part from above data and part from World Bank World Development Report, 1986.

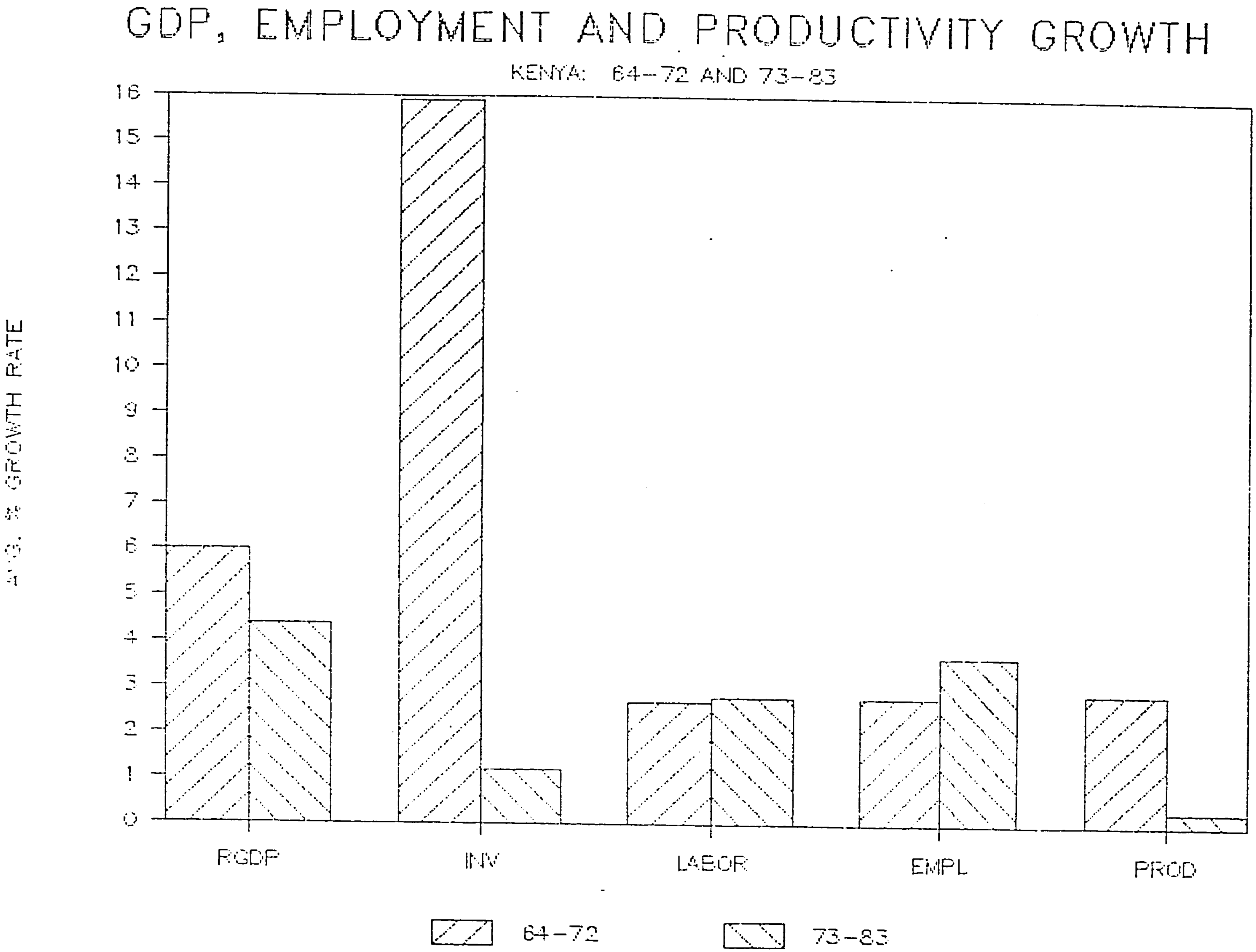

GDP, EMPLOYMENT AND PRODUCTIVITY GROWTH
KENYA: 64-72 AND 73-83
AVG. % GROWTH RATE
16
15
14
13
12
11
10
9
8
7
6
5
4
3
2
1
0
RGDP
INV
LABOR
EMPL
PROD
64-72
73-83

FIGURE 1.

TABLE 2.

MEASURES OF MACROECONOMIC PERFORMANCE -- KENYA 1964-81

YEAR	64	65	66	67	68	69	70	71	72	73	74
GDP MKT PR(76 PRICES)	754.64	769.30	886.22	920.23	992.08	1056.70	1128.56	1207.56	1289.67	1345.13	1359.93
GROSS INVESTMENT	99.06	106.50	158.79	166.02	169.85	208.17	239.14	304.31	292.76	387.40	386.22
INV/GDP (REAL)	13.13%	13.84%	17.92%	18.04%	17.12%	19.70%	21.19%	25.20%	22.70%	28.80%	28.40%
% INCREASE REAL GDP		1.94%	15.20%	3.84%	7.81%	6.51%	6.80%	7.00%	6.80%	4.30%	1.10%
CAP/OUTPUT (1 YEAR LAG)		6.75	0.71	4.67	2.31	2.53	2.90	3.03	3.71	5.28	26.18
CAP/OUT (3 YR CENTERED)			4.11	2.63	3.20	2.61	2.85	3.21	4.00	11.72	12.80
TOTAL WAGE EMPL.	575.4	582.1	585.4	597.4	606.4	627.2	644.5	691.2	719.8	761.7	826.3
PRIV. WAGE EMPL.	393.4	393.9	385.0	385.3	384.5	390.1	397.0	423.6	432.8	462.5	496.2
GOVT. WAGE EMPL.	182.0	188.2	200.4	212.1	221.9	237.1	247.5	267.6	287.0	299.2	330.1
% CHNGE. TOT.WAGE EMPL		1.16%	0.57%	2.05%	1.51%	3.43%	2.76%	7.25%	4.14%	5.82%	8.48%
% CHNGE. PR. WAGE EMPL.		0.13%	-2.26%	0.08%	-0.21%	1.45%	1.77%	6.70%	2.17%	6.86%	7.29%
%CHNGE. GOVT. WAGE EMPL.		3.41%	6.48%	5.84%	4.62%	6.85%	4.39%	8.12%	7.25%	4.25%	10.33%
% TOT. EMPL./ % GDP		0.60	0.04	0.53	0.19	0.53	0.41	1.04	0.61	1.35	7.71
% PRIV. EMPL / % GDP		0.07	-0.15	0.02	-0.03	0.22	0.26	0.96	0.32	1.60	6.62
% GOV. EMPL / % GDP		1.75	0.43	1.52	0.59	1.05	0.65	1.16	1.07	0.99	9.39

YEAR	75	76	77	78	79	80	81	82	83
GDP MKT PR(76 PRICES)	1415.68	1449.66	1586.22	1701.13	1767.90	1852.67	1925.76	1958.78	2032.45
GROSS INVESTMENT	257.65	294.27	399.82	495.25	361.19	502.08	491.49	378.02	359.85
INV/GDP (REAL)	18.20%	20.30%	25.21%	29.11%	20.43%	27.10%	25.52%	19.30%	17.71%
% INCREASE REAL GDP	4.10%	2.40%	9.42%	7.25%	3.92%	4.79%	3.95%	1.73%	3.75%
CAP/OUTPUT (1 YEAR LAG)	6.93	7.58	2.15	3.48	7.42	4.22	6.87	14.30	5.15
CAP/OUT (3 YR CENTERED)	13.56	5.56	4.41	4.35	5.05	6.13	9.64	8.94	
TOTAL WAGE EMPL.	819.1	857.5	902.9	911.6	972.2	1005.7	1024.3	1046.0	1093.3
PRIV. WAGE EMPL.	476.7	501.0	526.4	521.6	547.4	534.0	540.0	540.4	565.5
GOVT. WAGE EMPL.	342.4	356.5	376.5	390.0	424.9	471.7	484.3	505.6	527.8
% CHNGE. TOT.WAGE EMPL	-0.87%	4.69%	5.29%	0.96%	6.65%	3.44%	1.85%	2.12%	4.52%
% CHNGE. PR. WAGE EMPL.	-3.93%	5.10%	5.07%	-0.91%	4.75%	-2.45%	1.12%	0.07%	4.64%
%CHNGE. GOVT. WAGE EMPL.	3.73%	4.12%	5.61%	3.59%	8.95%	11.01%	2.67%	4.40%	4.37%
% TOT. EMPL./ % GDP	-0.21	1.95	0.56	0.13	1.70	0.72	0.47	1.23	1.21
% PRIV. EMPL / % GDP	-0.96	2.12	0.54	-0.13	1.26	-0.51	0.28	0.04	1.24
% GOV. EMPL / % GDP	0.91	1.72	0.60	0.49	2.28	2.30	0.68	2.55	1.17

SOURCES: Pieced together from data in Statistical Abstract, 1984, Table 37(b) Economic Survey, 1980 Table 3.9, and World Bank, Kenya: Into the Second Decade, Table 9. There are problems with shifting real base years, but but these data seem reasonably accurate at least to show trends.

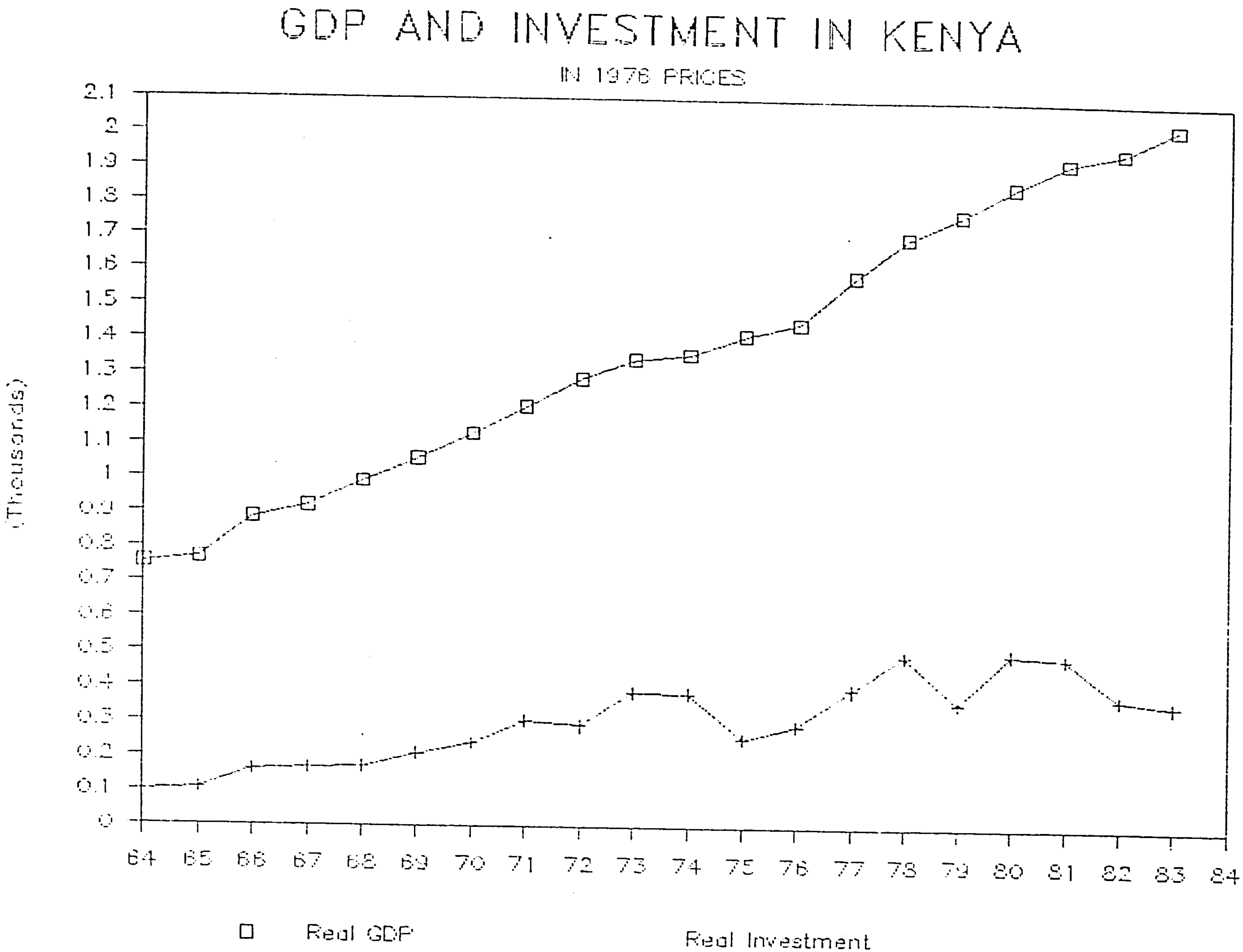

GDP AND INVESTMENT IN KENYA
IN 1976 PRICES
(Thousands)
2.1
2
1.9
1.8
1.7
1.6
1.5
1.4
1.3
1.2
1.1
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84
Real GDP
Real Investment

FIGURE 2.

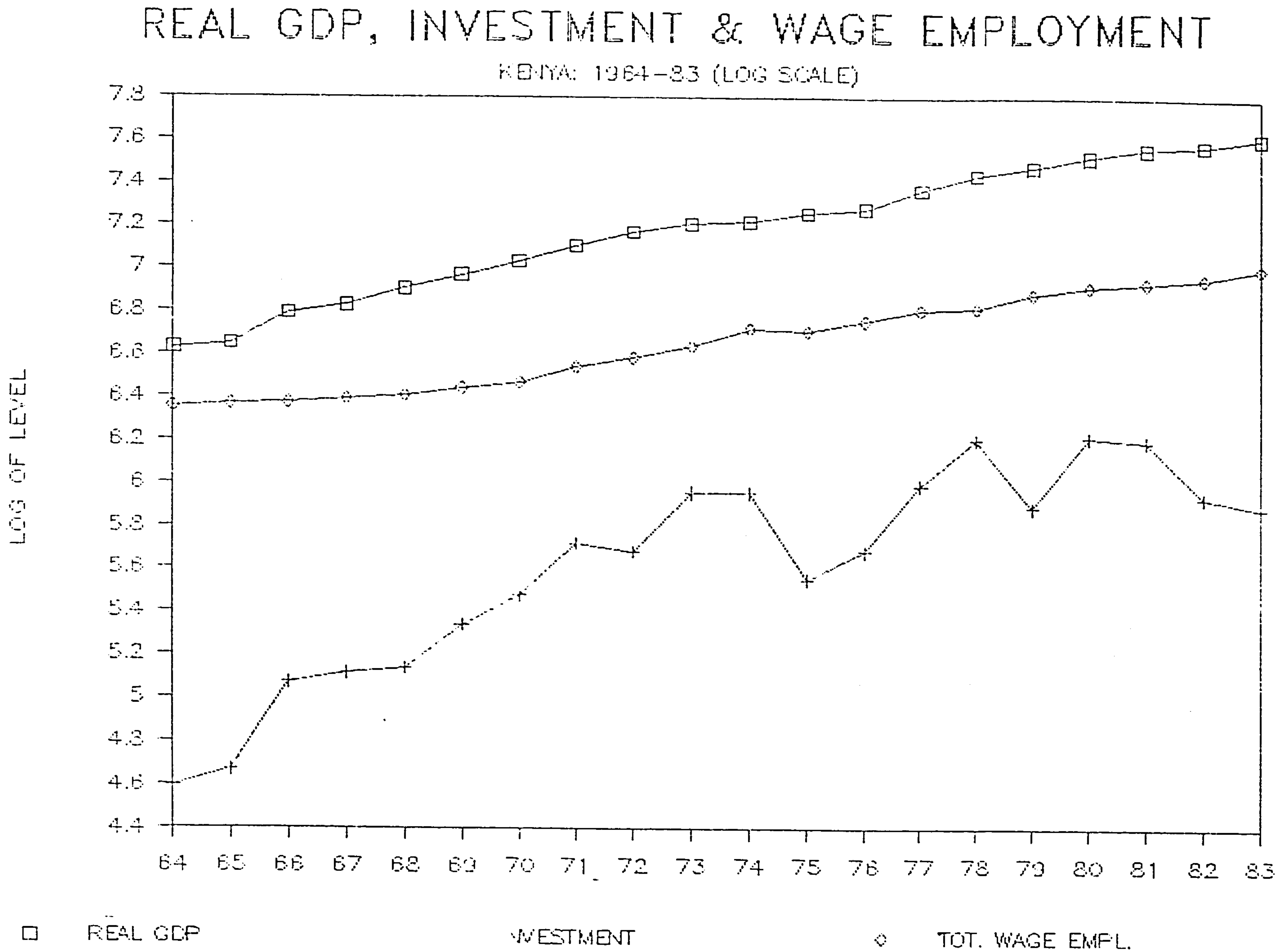

REAL GDP, INVESTMENT & WAGE EMPLOYMENT
KENYA: 1964-83 (LOG SCALE)
LOG OF LEVEL
7.8
7.6
7.4
7.2
7
6.8
6.6
6.4
6.2
6
5.8
5.6
5.4
5.2
5
4.8
4.6
4.4
64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83
REAL GDP
INVESTMENT
TOT. WAGE EMPL.

FIGURE 3.

FIGURE 4.

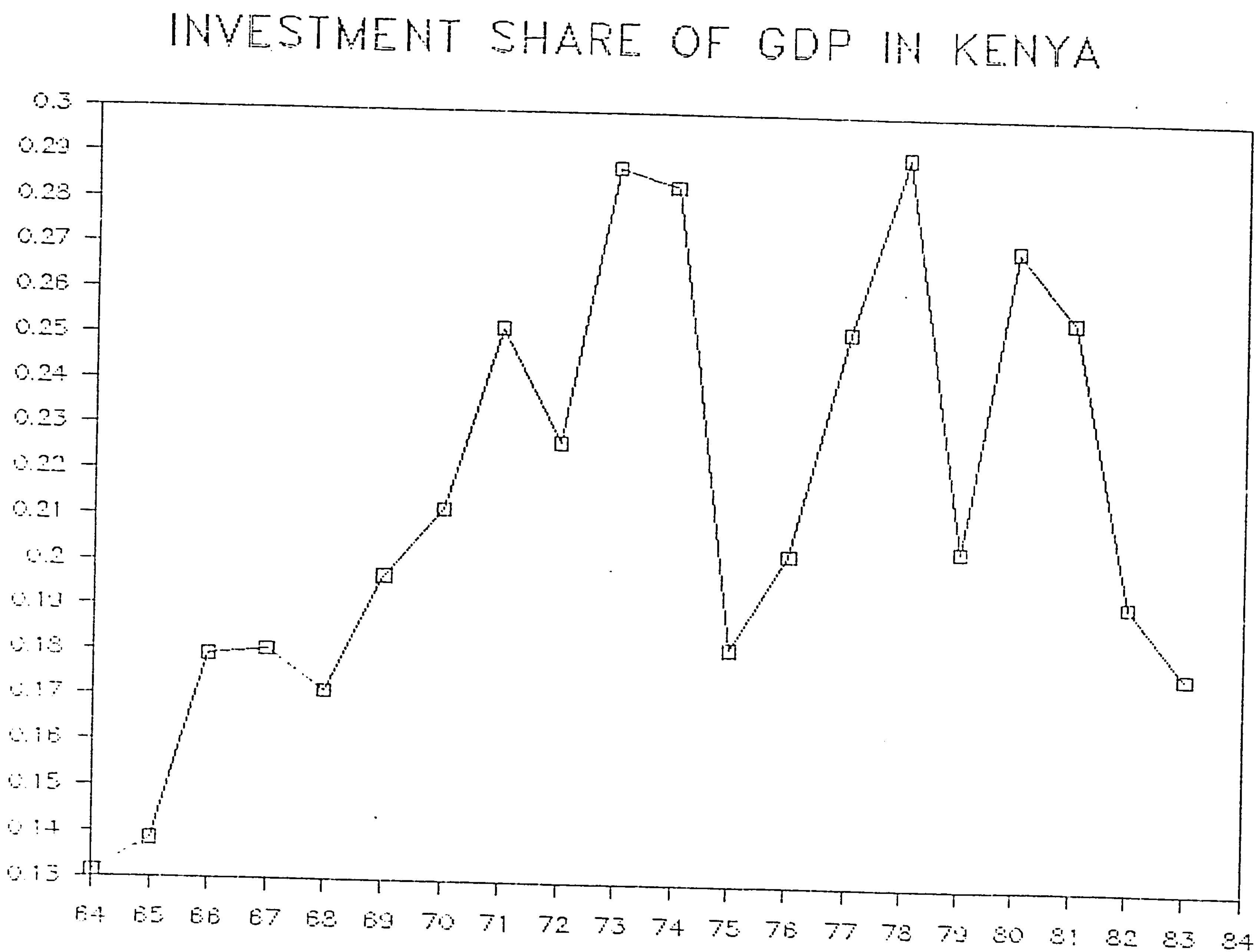
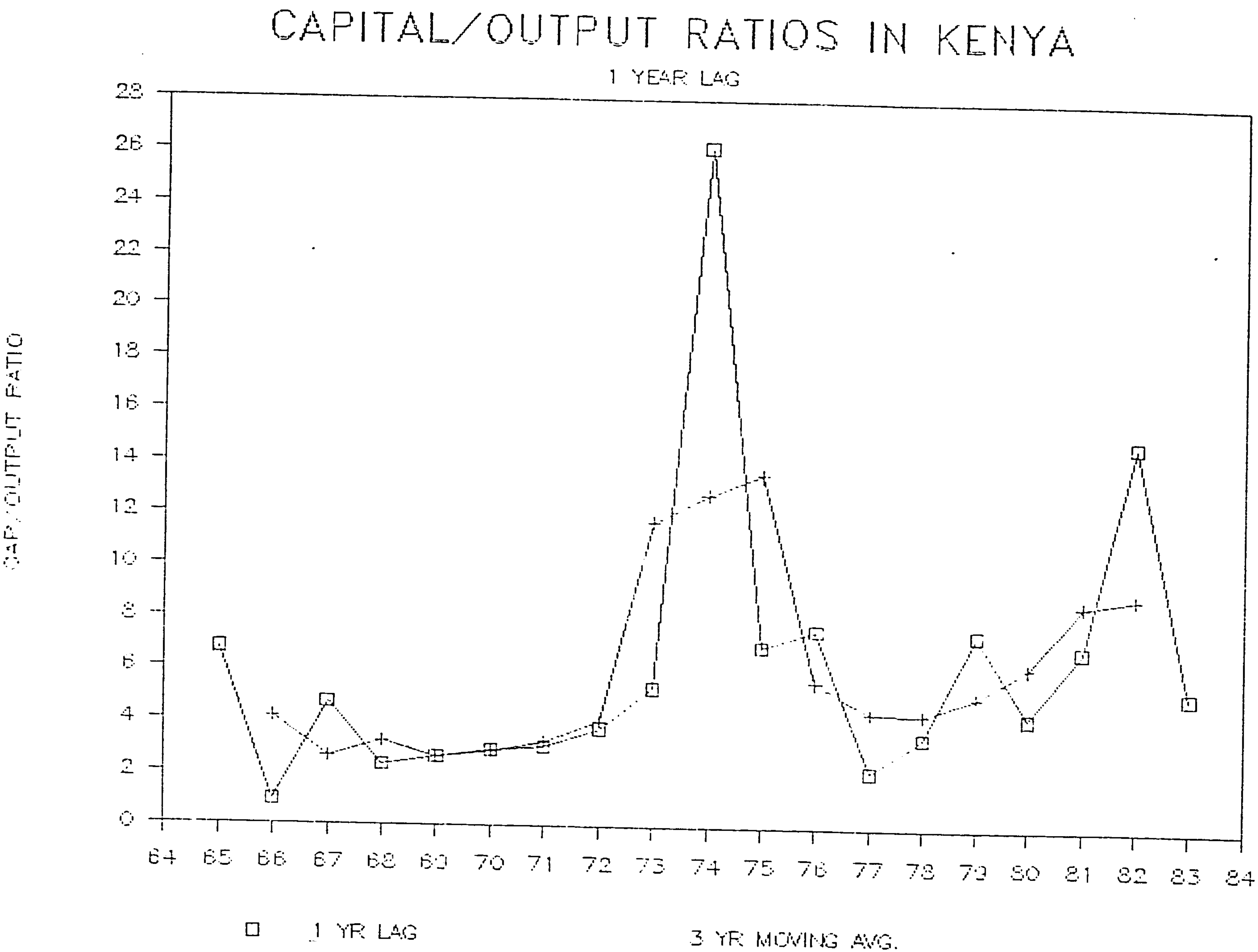

INVESTMENT SHARE OF GDP IN KENYA
0.3
0.29
0.28
0.27
0.26
0.25
0.24
0.23
0.22
0.21
0.2
0.19
0.18
0.17
0.16
0.15
0.14
0.13
64
65
66
67
68
69
70
71
72
73
74
75
76
77
78
79
80
81
82
83
84

FIGURE 5.


CAPITAL/OUTPUT RATIOS IN KENYA
1 YEAR LAG
CAP/OUTPUT RATIO
0
2
4
6
8
10
12
14
16
18
20
22
24
26
28
64
65
66
67
68
69
70
71
72
73
74
75
76
77
78
79
80
81
82
83
84
1 YR LAG
3 YR MOVING AVG.

Since the first priority of development strategy was to raise the rate of investment, Figure 4 shows how successful policy was over the period. Between 1964 and 72 gross investment as a share of GDP rose from 13% to almost 29%. Thereafter, the share fluctuated wildly between highs in 78 and 80 above 27% and lows in 75, 79, 80 and 81 below 21%. Nevertheless, even the lowest levels of 75 and 83 were above 17% which are high rates indeed by international standards. To the extent that development is caused by capital formation, Kenya should have been quite successful.

However, as shown in Figure 5, there has been a general trend towards increasing capital-output ratios. The capital output ratio with a one year lag is calculated and plotted as is a series of three-year moving averages of the previous measure. Both show ratios between 2 and 4 in the 66-72 period; sharp rises in 73-74 in which the highest rates of investment were coupled with the bad years of drought and oil-crisis disruption. Recovery of output is reflected in the lower ratios in 75-77 with the coffee boom helping output. Finally, from 77 to 82, the ratios rise steadily staying in a band between 4.5 and 9. A question remains why investment became less effective in raising growth of output over time. We will turn next to the relationships between wages, employment and productivity growth that may shed some light on this matter.

IV. EMPLOYMENT, WAGES, AND PRODUCTIVITY

A. EMPLOYMENT GROWTH

The relationships between output and employment growth were shown in Figures 1 and 3. However it is useful to examine further their interconnections over time in Figures 6 - 8 based on data from Table 3. Figure 6 plots the annual percentage increases in GDP and total wage employment, Figure 7 plots the same with private rather than total employment, while the ratio of GDP increases to private and government employment appear in Figure 8. Between 1964 and 72, the growth of total employment was consistently lower than GDP growth while in the later period both series were subject to much greater fluctuations and employment increases were greater than GDP increases in several years.

These relations are seen in more detail in Figure 8 where equal rates of growth of employment and GDP would yield a ratio of one. It is evident from these figures that throughout the entire period, private employment growth has lagged far behind both GDP and government. The data for 1974 and 75 are puzzling -- in the former year output plunged due to drought and oil crisis while employment increase was at its all-time high while in the following year output recovered while employment dropped absolutely. One cannot

TABLE 3.

Wages and Employment in Kenya

YEAR	TOT WAGE EMPL.	PR.WAGE EMPL	GVT.WAGE EMPL	AVG WAGE	PRIV. WAGE	GOV. WAGE
1964	575.4	393.4	182.0	341.0	285.0	561.0
1965	532.1	373.7	193.2	367.0	273.0	510.0
1966	585.4	385.0	200.4	407.0	328.0	545.[illegible]
1967	597.4	385.3	212.1	432.0	362.0	559.0
1968	606.4	384.5	221.9	455.0	395.0	571.[illegible]
1969	627.2	390.1	237.1	452.0	397.0	533.[illegible]
1970	644.5	397.0	247.5	465.0	402.0	573.[illegible]
1971	691.2	423.6	267.6	492.0	416.0	619.0
1972	719.8	432.8	287.0	505.0	470.0	616.0
1973	761.7	482.5	279.2	537.0	443.0	675.0
1974	826.3	496.2	330.1	592.0	507.0	[illegible]
1975	819.1	476.7	342.4	695.0	501.0	813.0
1976	857.5	501.0	356.5	842.0	727.0	975.[illegible]
1977	902.9	526.4	376.5	924.0	815.0	1052.0
1978	911.6	521.6	390.0	1004.0	855.0	1142.0
1979	972.3	547.4	424.7	1083.0	974.0	1205.0
1980	1005.7	534.0	471.7	1227.0	1136.0	1261.0
1981	1021.3	540.0	481.3	1403.0	1220.0	1536.0
1982	1046.0	540.4	505.6	1552.0	1459.0	[illegible]
1983	1093.3	565.5	527.8	1655.0	1566.0	1707.0
1984						
1985						

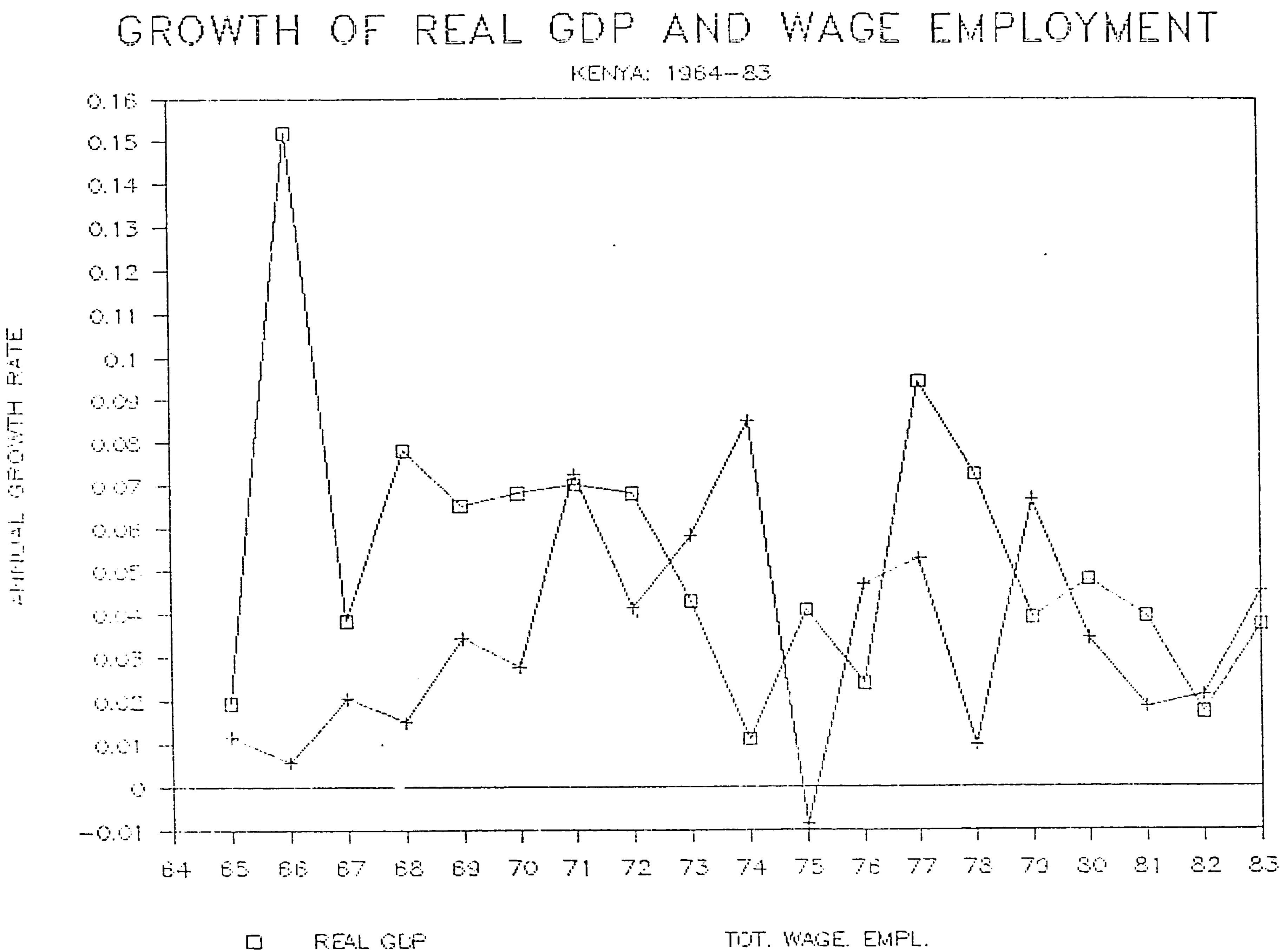
YEAR	MIN WAGE	CPI	AV.WAGE 76 PRICE	PR.WAGE 76 PRICE	GOV.WAGE 76 PRICE	MIN.WAGE 76 PRICE	INFLAT. RATE	%CHANGE AV.WAGE	%CHANGE PR.WAGE	%CHANGE GOVT.WAGE
1964	150.0	0.480	710.4	593.3	[illegible]	312.5				
1965	150.0	0.486	755.1	613.2	1049.4	308.6	1.25%	[illegible]	[illegible]	[illegible]
1966	175.0	0.504	811.5	670.6	1081.3	347.2	[illegible]	[illegible]	[illegible]	[illegible]
1967	175.0	0.518	834.0	698.8	[illegible]	337.8	[illegible]	[illegible]	[illegible]	[illegible]
1968	175.0	0.522	871.6	[illegible]	[illegible]	335.2	[illegible]	[illegible]	[illegible]	[illegible]
1969	175.0	0.527	857.7	[illegible]	1058.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1970	175.0	0.539	863.3	745.3	1063.1	324.7	2.28%	[illegible]	[illegible]	[illegible]
1971	175.0	0.574	857.1	724.7	1078.4	304.9	[illegible]	[illegible]	[illegible]	[illegible]
1972	175.0	0.610	827.9	704.9	1009.8	286.9	[illegible]	[illegible]	[illegible]	[illegible]
1973	175.0	0.648	828.7	683.6	[illegible]	270.1	[illegible]	[illegible]	[illegible]	[illegible]
1974	240.0	0.757	782.0	667.7	[illegible]	317.0	[illegible]	[illegible]	[illegible]	[illegible]
1975	300.0	0.921	754.6	652.6	883.2	325.7	[illegible]	[illegible]	[illegible]	[illegible]
1976	300.0	1.000	842.0	727.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1977	330.0	1.102	838.5	739.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1978	350.0	1.217	825.6	725.9	[illegible]	287.1	[illegible]	[illegible]	[illegible]	[illegible]
1979	350.0	1.316	822.9	740.1	915.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1980	436.0	1.451	845.6	817.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1981	456.0	1.644	874.7	802.9	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1982	420.0	2.132	728.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1983	460.0	2.401	687.3	652.2	720.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1984	480.0	2.551				[illegible]	[illegible]			
1985										

YEAR	GDP/FC 76 PRICE	% GDP SELF EMP	% GDP WAGE	% GDP OP. SURPL	AVG.WAGE/ GDP-F.C.	MIN WAGE/ PR. WAGE	GOV.WAGE/ PR. WAGE
1964	131.1	0.30	0.45	0.26	5.42	0.53	[illegible]
1965	125.9	0.27	0.47	0.26	[illegible]	0.50	[illegible]
1966	140.9	0.29	0.44	0.27	5.76	0.52	[illegible]
1967	142.6	0.27	0.41	[illegible]	5.85	0.48	1.55
1968	148.7	0.27	0.44	0.29	[illegible]	0.43	1.47
1969	147.4	0.26	0.44	0.29	5.82	0.45	1.44
1970	152.3	0.25	0.44	0.31	5.70	0.44	1.43
1971	153.3	0.24	0.45	0.31	5.59	0.42	1.49
1972	157.4	0.25	0.45	0.30	5.26	0.41	[illegible]
1973	160.6	0.24	0.43	0.33	5.18	0.40	[illegible]
1974	159.3	0.24	0.41	0.35	4.91	0.47	[illegible]
1975	155.9	0.25	0.42	0.33	[illegible]	[illegible]	[illegible]
1976	153.8	0.25	0.41	0.35	[illegible]	0.41	[illegible]
1977	164.7	0.24	0.36	[illegible]	[illegible]	[illegible]	[illegible]
1978	169.1	0.26	0.38	0.35	[illegible]	[illegible]	[illegible]
1979	172.5	0.24	0.40	0.36	[illegible]	[illegible]	[illegible]
1980	171.5	0.23	0.40	0.37	[illegible]	[illegible]	[illegible]
1981	174.2	0.23	0.40	0.37	[illegible]	[illegible]	[illegible]
1982	[illegible]	0.23	0.40	0.37	[illegible]	[illegible]	[illegible]
1983	173.6	0.23	0.40	0.37	[illegible]	0.31	[illegible]
1984							

SOURCES:

Data appear in appendices to [illegible]

FIGURE 6.


GROWTH OF REAL GDP AND WAGE EMPLOYMENT
KENYA: 1964-83
ANNUAL GROWTH RATE
0.16
0.15
0.14
0.13
0.12
0.11
0.1
0.09
0.08
0.07
0.06
0.05
0.04
0.03
0.02
0.01
0
-0.01
64
65
66
67
68
69
70
71
72
73
74
75
76
77
78
79
80
81
82
83
REAL GDP
TOT. WAGE. EMPL.

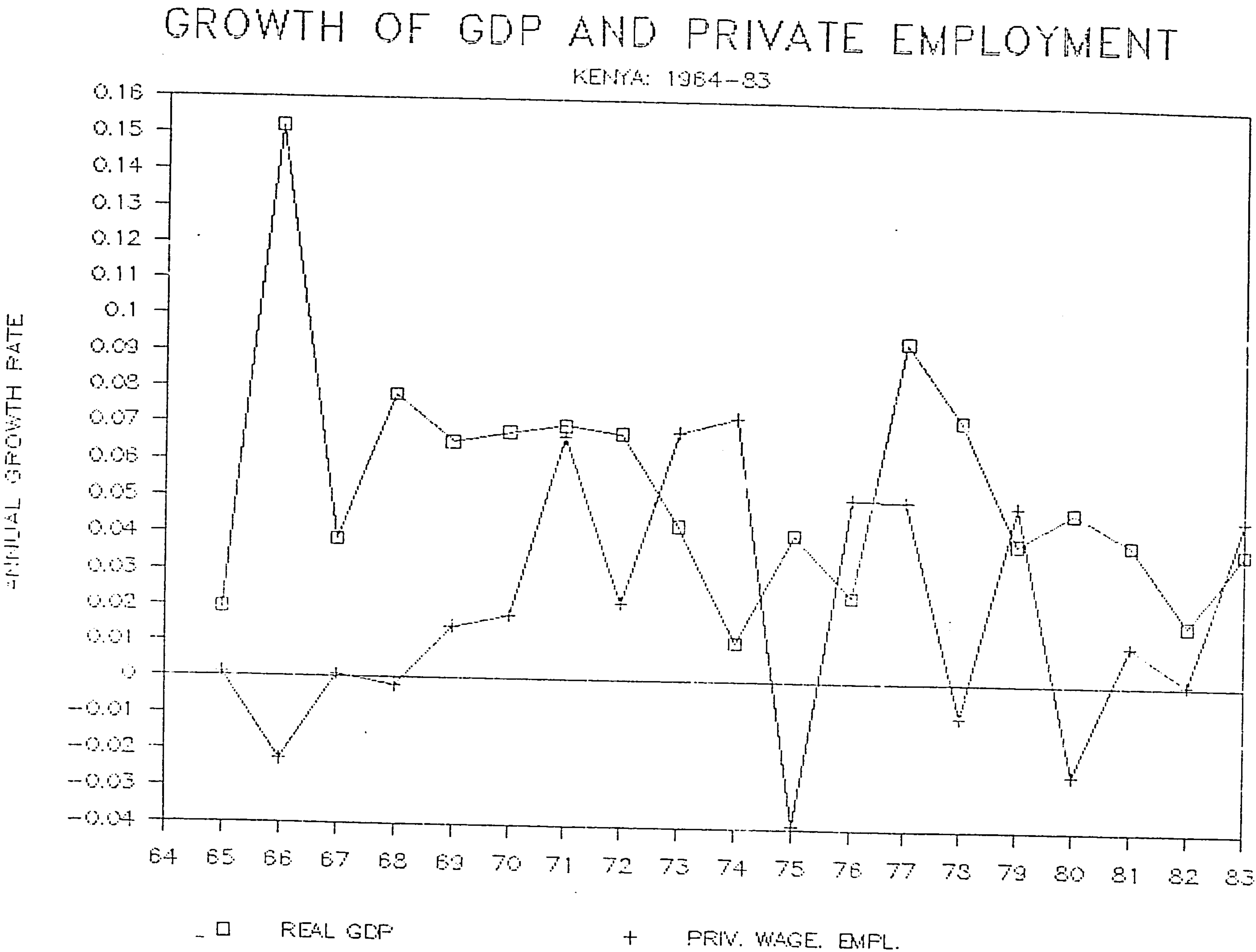

GROWTH OF GDP AND PRIVATE EMPLOYMENT
KENYA: 1964-83
ANNUAL GROWTH RATE
0.16
0.15
0.14
0.13
0.12
0.11
0.1
0.09
0.08
0.07
0.06
0.05
0.04
0.03
0.02
0.01
0
-0.01
-0.02
-0.03
-0.04
64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83
REAL GDP
PRIV. WAGE. EMPL.

FIGURE 7.

FIGURE 8.

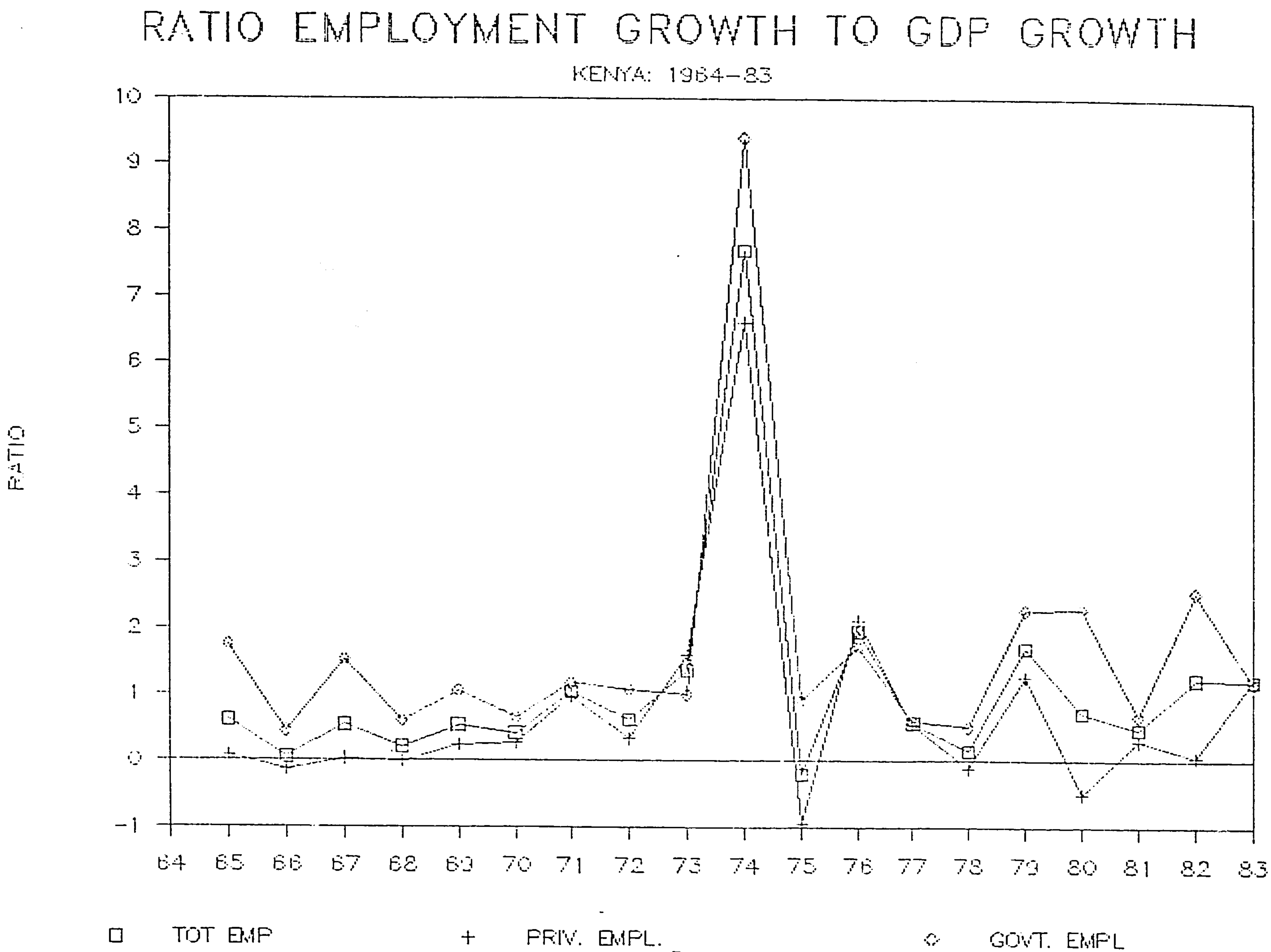
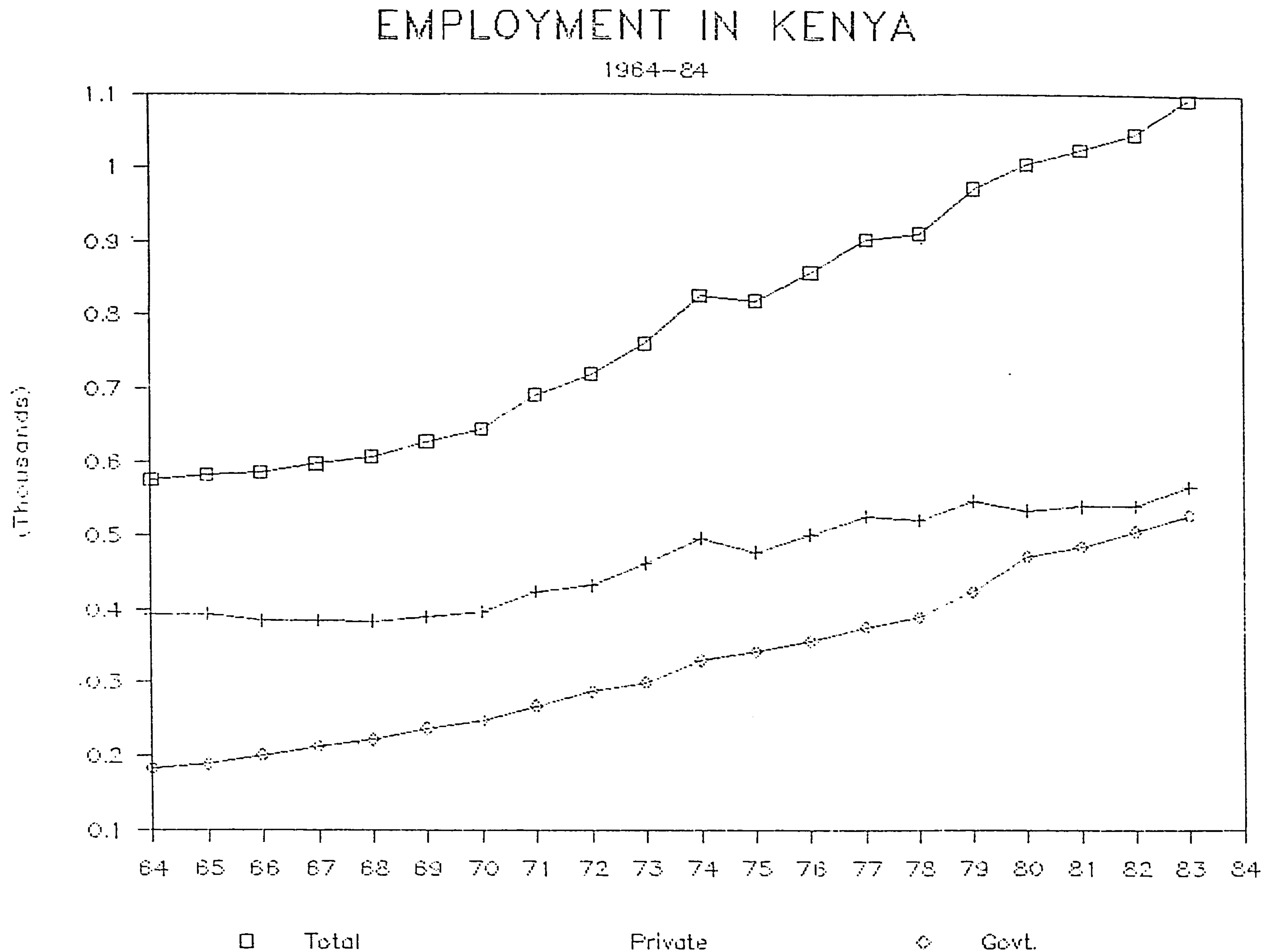

RATIO EMPLOYMENT GROWTH TO GDP GROWTH
KENYA: 1964-83
RATIO
10
9
8
7
6
5
4
3
2
1
0
-1
64
65
66
67
68
69
70
71
72
73
74
75
76
77
78
79
80
81
82
83
TOT EMP
PRIV. EMPL.
GOVT. EMPL

FIGURE 9.


EMPLOYMENT IN KENYA
1964–84
(Thousands)
1.1
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
64
65
66
67
68
69
70
71
72
73
74
75
76
77
78
79
80
81
82
83
84
Total
Private
Govt.

be definitive, but there is good reason to believe that part of the problem is statistical. After 1976 there is more variablility in the ratio but the average is higher which is the mirror of the lower average productivity growth shown in Figure 1.

Figure 9 puts in clear contrast the slow growth of private employment relative to government over the entire period. The public sector accounted for less than half of private wage employment in 1964 while the two sectors were almost equal in importance by 1983. The extremely slow and frequently negative growth of private employment from 64 to 70 and again after 76 is evident from these figures. Furthermore, a considerable portion of "private" employment after 1974 arose in firms in which government had significant participation thereby making the public sector even more important in providing wage-paying jobs.

While these figures relate to wage employment, it is important to recognize the relatively small role of wage employment in relation to total labor utilization which is shown in Table 4.

TABLE 4

PERCENTAGE BREAKDOWN OF EMPLOYED LABOR FORCE
(1978)

	Rural			Urban			Total		
	M	F	T	M	F	T	M	F	T
Wage Empl. only	25.2	6.3	18.7	66.6	63.4	65.7	30.6	11.6	24.2
Self Empl. own hold.	43.8	90.7	60.1	1.5	10.6	3.9	38.3	83.2	53.4
Unpaid Hhold plus other Self Empl.	31.0	3.0	21.2	31.9	26.5	30.4	31.1	5.2	22.4

Source: Calculated from Bigsten (1984) Table III.1 following Fallo (1985).

It is surprisingly difficult to obtain data on the distribution of employment between these different sectors as virtually all the official statistics of Kenya provide data only for wage employment. Bigsten has used the unpublished Labour Force Survey of 1977/78 and computed employment proportions by education and sex in rural and urvban areas. Fallon has calculated a most of the above ratios from Bigsten's data but his totals differ from those shown above because of taking account of unemployment in the total figures while the male and female proportions apply only to those employed. We have ignored unemployment, which was taken as 8.7% of the labor force in both rural and urban areas by Fallon, because the basis for any unemployment number is weak indeed.

The important point to note here is that wage employment accounts for only about 30% of the male labor force, 11% of the female labor force, and 24% of the total. Some 53% of the total is engaged in own-account agriculture, and another 22% in the "informal sector." Thus even though wage employment has grown slightly relative to the labor force as argued in Figure 1, the growth has been in the range of rising from a bit over 20 to about 25% of the total labor force. In the various estimates, the labor force and wage employment are the two "hard" numbers. The remaining persons are allocated among shall holdings, informal sector, and unemployed on the basis of poor data indeed. Indeed, there is considerable combining of own-account agriculture, informal sector wage and self employment and seasonal unemployment by individuals making any such estimates of employment by sector subject to cosiderable error of measurement and interpretation.

However, it is interesting to note that urban employment is dominated by wage work -- about 65% of both females and males while in rural areas wage employment accounts for only about 25% of males and 6% of females who are working. The overwhelming importance of work on own account in small-holder agriculture for females is also evident in this table.

B. WAGE AND EARNINGS CHANGES

Average real wages in the formal sectors increased substantially in the late 50's and early 60's in Kenya during the era that Collier and Lal refer to as the "period of compassion" in wage determination. According to their data between 1954 and 1964 African real wages in the public sector increased by a factor of 2.5; in private agriculture the increase factor was 1.65; and in private non-agriclture the factor was 1.9.[25] In Figure 10 the continued increase in real wages through 1968, the slight erosion in 69-71, and rapid erosion of real wages between 1972 and 75 and again after 1981 is clear. Furthermore, private wages which had been substantially lower than government wages early in the period, converged closely to virtually the same level by 1983. In particular between 1976 and 80 when government wages were eroding steadily, private wages increased and both moved downwards together after 1981.[26]

The mechanism giving rise to real wage erosion is clearly shown in Figure 11 to be less than full indexation of wages in face of inflation. The largest decreases in real wages coincide with the highest levels of inflation. Figure 12 shows that in the 73-83 period the average wage increased by almost 12% while the inflation rate was 14%.

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25 Paul Collier and Deepak Lal, Labour and Poverty in Kenya: 1900-1980, (Oxford: Oxford University Press, 1986), Table 2.10, p.64.

26 These data are somewhat misleading. While the average wage in private employment is lower than the average in government employment, Collier and Lal, op.cit., 1986, present data in Table 6.6, p.170 from previously unpublished government surveys showing that for specific occupations, private sector wages were consistently higher than public sector wages in 1972 by 5 to 30% with the differences being greatest for higher-skill occupations. Thus the differences between the average wage levels has to be accounted for by the considerably higher average skill (education) level in public-sector employment.

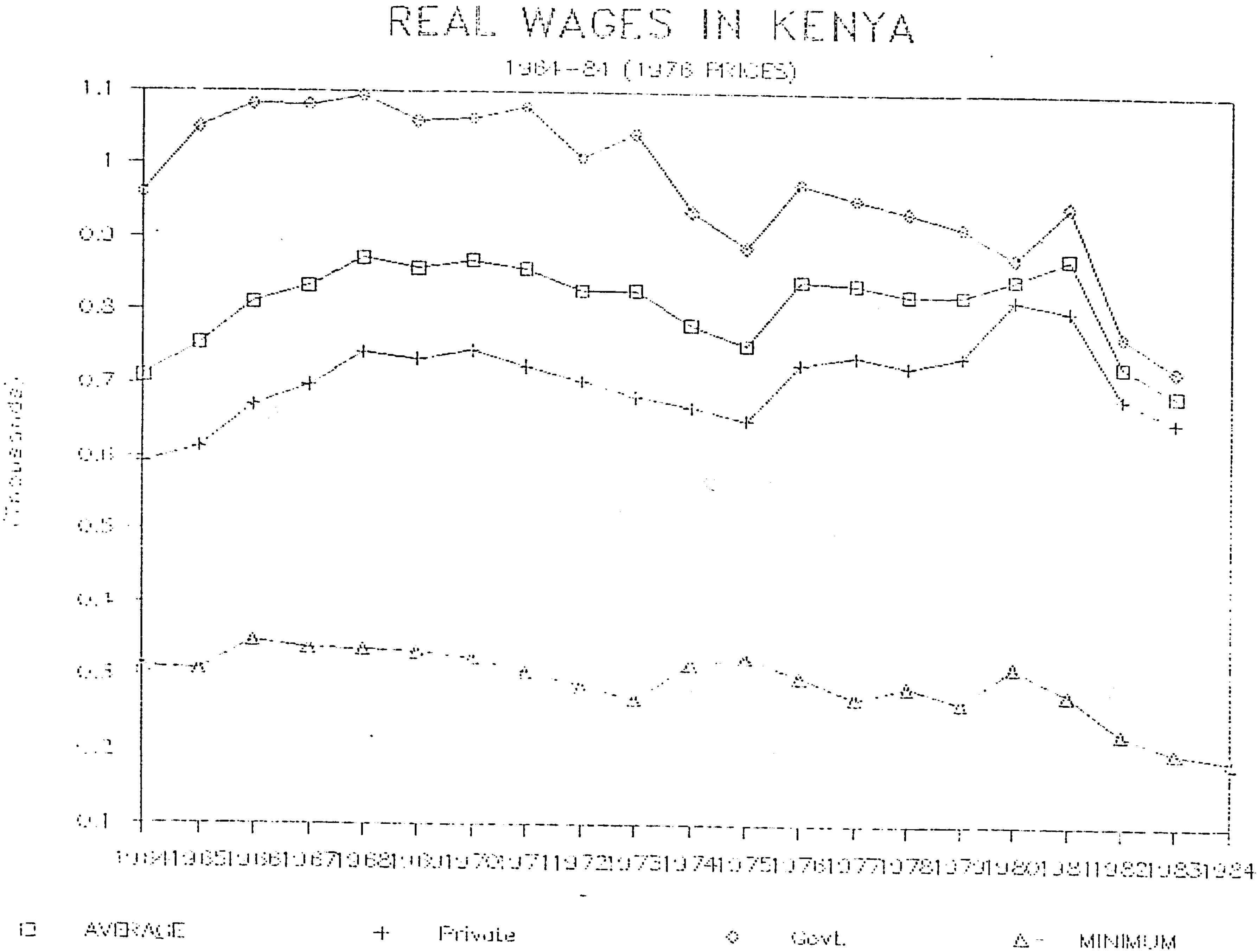

REAL WAGES IN KENYA
1964-84 (1976 PRICES)
(Thousands)
AVERAGE
Private
Govt.
MINIMUM

FIGURE 10.

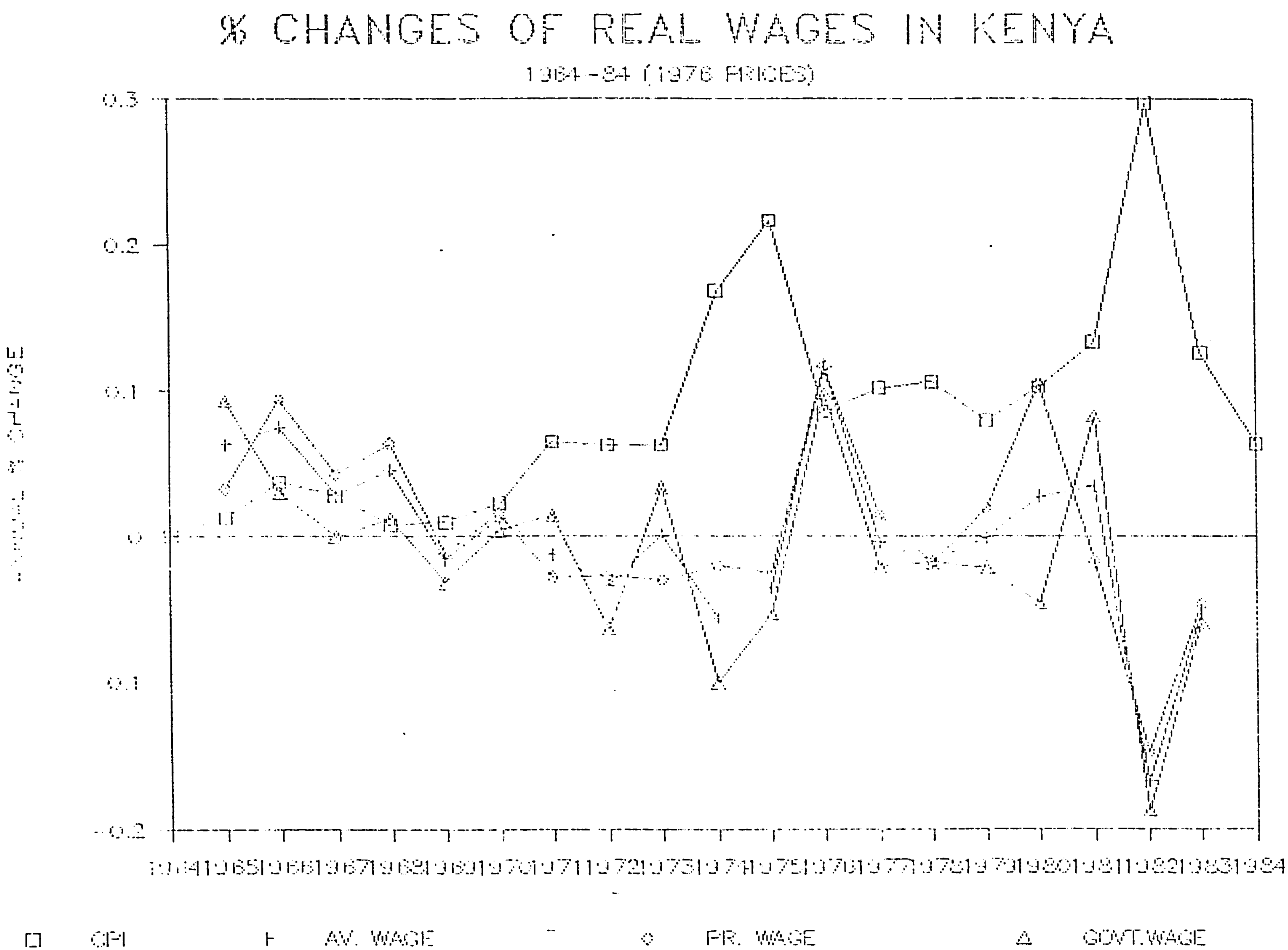

% CHANGES OF REAL WAGES IN KENYA
1964-84 (1976 PRICES)
0.3
0.2
0.1
0
0.1
-0.2
1964 1965 1966 1967 1968 1969 1970 1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984
CPI
AV. WAGE
PR. WAGE
GOVT.WAGE

FIGURE 11.

FIGURE 12.

INFLATION, CROP PRICES AND WAGES

KENYA: 64-72 AND 73-83

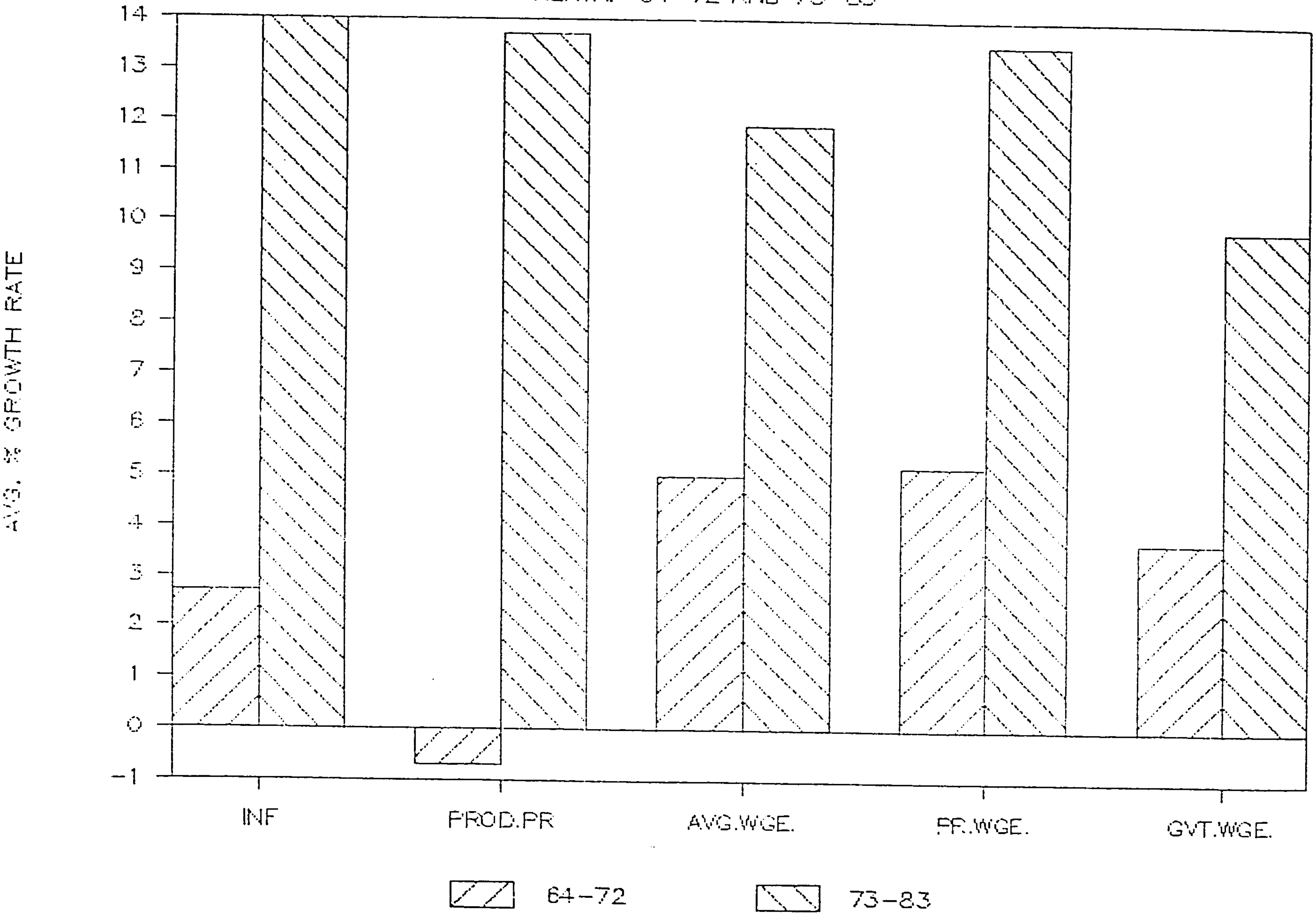
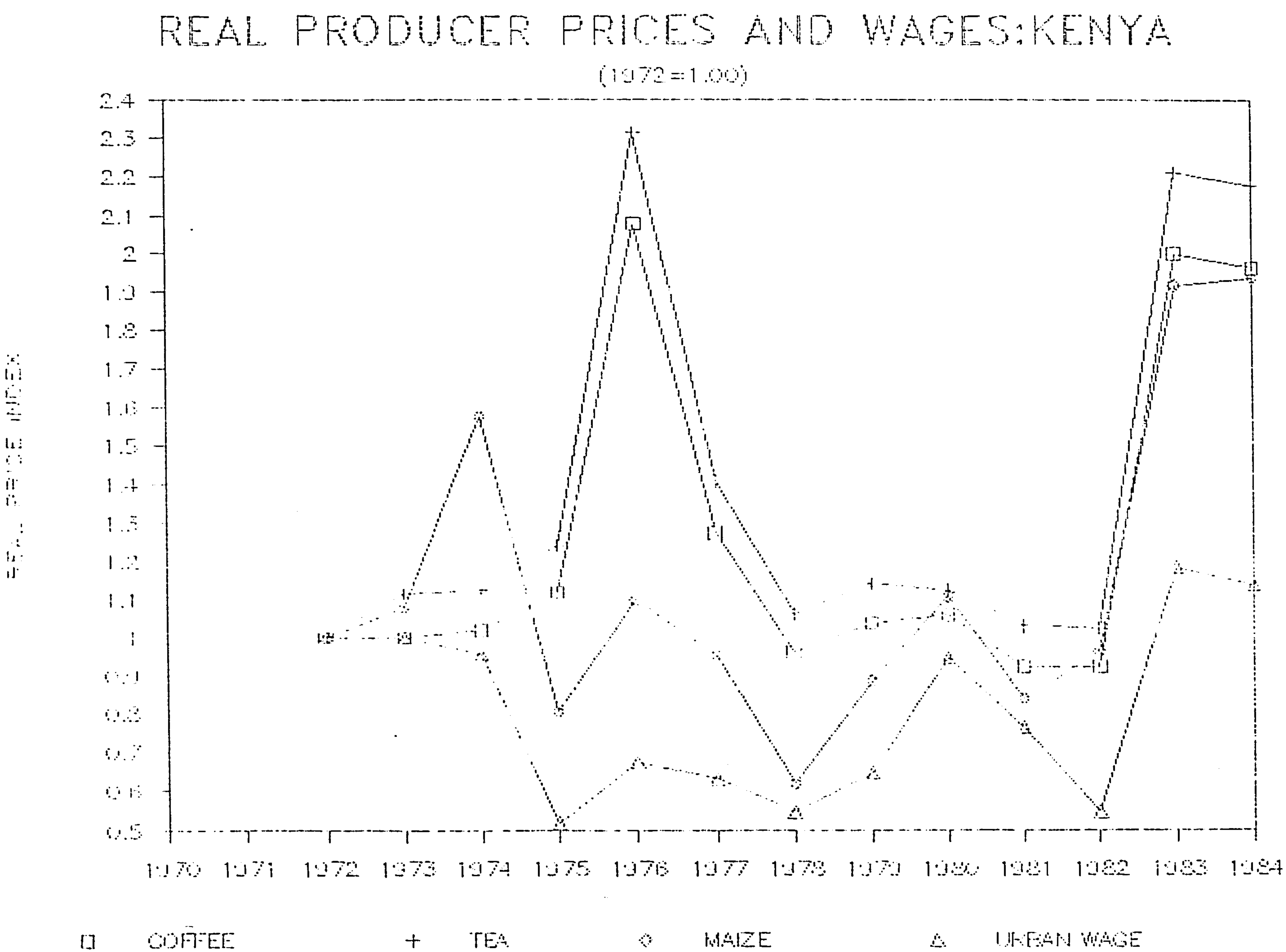


FIGURE 13.


REAL PRODUCER PRICES AND WAGES:KENYA
(1972=1.00)
2.4
2.3
2.2
2.1
2
1.7
1.5
1.4
1.1
1
0.5
1970
1971
1972
1973
1974
1975
1976
1977
1981
1982
1983
1984
COFFEE
TEA
MAIZE
URBAN WAGE

This erosion was consistent with the previously mentioned wage and income guidelines put forth by the Government and used by the Industrial Court to measure reasonableness of wage agreements.

Figure 12 also shows that agricultural producer prices almost kept up with inflation during the 73-83 period in sharp contrast to their real deterioration in the 64-72 period. Therefore, small holder earnings in agriculture which are determined by producer prices and productivity had fallen sharply relative to wages in the period up to 72 and then began to increase relatively. Figure 13 shows the movements of coffee, tea, and maize prices relative to average urban wages from 1972-84. There it is evident that the prices of export crops moved up relative to both wages and the staple food crop particularly during the commodity boom years 75-77. After 1982 all of the rural real prices were increased dramatically while wages increased much less.[27]

The result of these relative movements of wages and producer prices was to reduce considerably the rural-urban wage differences that were central to the Harris-Todaro analysis of the employment problem in Kenya which becaue the

27 Note that Figure 13, based on World Bank data show real urban wages increasing 1982-83 while Figures 10 and 11 based on Kenyan figures as compiled by Vandermoortele show decreases in the same period. The latter are the more reliable data although the crop price data from the World Bank seem reasonably good and consistent with other published data.

"conventional wisdom" underlying most discussions of the employment problem in the 70's. Those models began with the observation that the rapid increases of real urban wages in the 60's were the result of deliberrate policy and sustained by administrative means. The consequences of these rural-urban wage differentials were seen to include a slowing of modern sector employment growth through relative-price driven substitution of labor by capital; growth of open unemployment in urban areas and higher rates of urban growth than was warranted; loss of agricultural output as a result of labor withdrawal; and worsening of income distribution favoring urban households relative to rural ones.

The evidence is clear that these wage differentials were narrowed after 1972. Were the effects those that were predicted?

Wage employment did grow somewhat faster in the later period and <u>average</u> productivity of labor grew less rapidly as shown in Figures 1 and 3.[28] However, this result may be less supportive of the analysis than appears at first glance because as shown in Figures 7-9, virtually all of the

[28] Note that growth of labor productivity is not necessarily a good thing in these circumstances. To the extent that capital is being deepened in modern-sector production, average productivity will rise but at the expense of possible capital widening. The other side of the productivity increase is that labor is being absorbed less rapidly than output is growing. While this is desirable for the economy as a whole, it is not desirable for the small modern sector in which average productivity and capital intensity is already high relative to the rest of the economy.

employment acceleration was in the public sector. Private sector employment, which should be sensitive to profit-maximizing employment effects of falling real wages, was quite unresponsive, a matter which we shall explore in more detail in a later section.

While real producer prices of agriculture increased as shown in Figures 12 and 13, the rate of agricultural output declined from 6.2% per annum in 1965-73 to 3.5% in 73-84.[29] Thus the evidence is not consistent with the predictions with regard to agriculture.

The effects on rural-urban migration however, were striking and consistent with the theory. Collier and Lal calculate the growth of Nairobi's population attributable to migration as being 4.2% per annum in 1969-73; 0.3% in 73-77; and 1.3% in 77-79.[30] Even more dramatically, they show that the proportions of male non-Nairobi Form IV Leavers migrating to Nairobi was 79% in 1964-68 but fell to 18% in 69-72, 12% in 73-76, and 13% in 1977-79.[31]

The consequences for equality are unclear. First, good

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29 World Bank, World Development Report 1986, Table 2, p. 182. There are many complicating factors including weather cycles to be taken into account, but in general it is not clear that the relative decline in agricultural growth is entirely a problem of worsening incentives. An excellent discussion of the sector's performance is contained in Jennifer Sharpley, "Kenya: Macro Economic Policies and Agricultural Performance," (Paris: OECD Development Centre) working paper, Oct. 1984.

30 Collier and Lal, op.cit., Table 7.1, p.243.

31 Ibid. Table 7.4, p.246.

data on income distribution are hard to find. However, there is a considerable body of evidence which we will look at in more detail later showing that the effect of extended-family transfers between urban and rural areas is considerable so that it is misleading to look at urban-rural differences in terms of places in which incomes originate. Vandermoortele has an estimate based on careful working out of a Social Accounting Matrix that the Gini coefficient of household income falls from .44 to .38 when urban-rural remittances are taken into account. He also calculates Urban-rural income gaps -- they fall from 3.74 for labor income at source or 3.76 taking capital returns into account to 2.67 after adjusting for remittances.[32] Johnston and Whitelaw found in 1971 that some 21% of the urban wage bill was remitted to rural areas.[33] Other evidence is given by Collier and Lal that urban earnings of family members is the most important variable explaining smallholder adoption of innovations.[34]

V. THE IMPORTANCE OF LABOR MARKET INSTITUTIONS

A conventional approach to employment policy would have three main thrusts: accelerate the rate of investment; get the "prices right;" and increase the supply of skills and

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32 Jan Vandemoortele, "Economic Analysis and Planning Within a Social Accounting Framework: The Case of Kenya," (Addis Ababa: ILO/JASPA, 1985) unpublished manuscript, p.7.

33 G.E. Johnson and W.E. Whitelaw, "Urban-Rural Income Transfers in Kenya: An Estimated Remittances Function," Economic Development and Cultural Change, v. 22, (1974)

34 Collier and Lal, "Poverty and Growth in Kenya," World Bank Staff Working Paper No. 389, May, 1980, pp.36-40.

reduce skill bottlenecks by investment in education and training. Kenya has in fact done all three fairly well. We have seen in Figures 1-4 that investment accelerated sharply and has consistently been in excess of 20% of GDP since the early 70's. However, Figure 5 cautions that the capital-output ratios have also risen.

Figures 10-13 show the steady reduction of wage differentials and the absolute reduction of real wages in the modern sectors which are certainly adjustments in the direction of reducing price distortitions. Yet the data on private wage employment suggests that increases have been extremely modest. On the other hand, rural-urban migration, particularly by individuals with some secondary schooling, has decreased dramatically.

Expansion of education and training of the African labor force has proceeded at a phenemonal pace. Since 1960 Kenya has virtually achieved universal primary education and has increased the proportion of secondary-school age group in school from 2% to over 18%.[35] Since 1963 enrollments in the government secondary-school system have increased by some 12% per annum and in private schools the increase has been at a rate of 21% per annum.[36]

These accomplishments are significant and have been

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[35] World Bank, World Development Report.

[36] J. Armitage and R.H. Sabot, "Efficiency and Equity Implications of Subsidies of Secondary Education in Kenya," in D. Newberry and N. Stern, Modern Tax Theory in Developing Countries, forthcoming.

surprisingly unrecognized by Kenyan policy makers who continue to worry about the capacity of the economy to provide "appropriate" jobs for young people entering the labor force from secondary schools.[37] Both to understand what progress has been made and to assess appropriate policy measures for the future, it is necessary to examine in some detail the importance of Kenya-specific institutions for employment.

Furthermore, it will become evident that much of what has happened is poorly understood because of a lack of understanding of the institutions and processes through which educated labor has been absorbed in the "informal" sectors particularly in rural areas and small towns.

A. THE ROLE OF FORMAL-SECTOR INSTITUTIONS

Most description of wage-setting mechanisms in Kenya centered on the role of minimim-wage legislation and government wage-leadership in the late Colonial and early independence periods. The direct role of Government was reinforced by the emergence of Trade Unions and the institutionalzation of collective bargaining agreements being supervised by an Industrial Court. The emergence of high real formal-sector wages relative to rural and informal

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[37] See the Report of the Presidential Committee on Unemployment 1982/83, op.cit.

sector earnings was dramatic by the end of the 60's.[38]

Yet we see that the real-wage differentials were dramatically eroded since the early 70's. Part of that result is attributable to deliberate policy measures adopted by Government in response to growing awareness of the problems caused by past actions and implemented through guidelines administered by the Industrial Court. In the late 60's political analyists could easily recognize the confluence of interests of urban elites, civil servants, and politicians in maintaining high wages for a priveleged sector. It is quite unclear what changed in the political system to allow the changes in policies but certainly the effect of the ILO report in 1972 was not negligible and the various external shocks to the economy that brought unprecedented rates of inflation to the country changed the economic and political environments.

Collier and Lal argue strongly (aggressively?) that institutional explanations for urban wage levels ceased to be important by the late 70's as forces of competition

[38] In addition to the several refernces given earlier, a useful account from the perspective of a Political Scientist using a neo-Marxian framework is Richard Sandbrook, Proletarians and African Capitalism, (Cambridge: Cambridge University Press, 1975). The wage policies of multinational firms is examined by A.H. Amsden in International Firms and Labour in Kenya: 1945-70, (London: Frank Cass & Co., 1971). Henry Rempel and William J. House, "The Operation of Urban Labour Markets in Kenya," in S. Kannappan (ed) Studfies of Urban Labour Market 'Behaviour in Developing Areas, (Geneva: ILO, 1977) emphasize the importance of ability to pay by private firms as a determinant of wage setting.

gained sway in the marketplace for labor. Certainly that is consistent with the evidence of real wage erosion. However, they argue from "new" neoclassical theory and marshall evidence quite impressively that the differentials that remain are efficient and arise from profit maximization in a competitive framework.[39] They draw on a range of theory emphasizing monitoring costs, imperfect information, screening and the like to explain why wage differentials need not disappear entirely. That seems alright to some extent. The clear evidence is that differentials did erode, and that is consistent with the deliberate dismantling of some institutions and emasculation of others that had served to maintain and increase differentials.

Yet they say very little about the determinants of employment generation in the competitive private sector although we have noted that expansion there has been slow. They are inclined to shift all further explanation to imperfections in product markets caused by inappropriate trade and protection policies.

Work in progress by Harris, Ndulu and Mohammed at Boston University on the Kenyan industrial sector shows that

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39 They argue "...it is hoped to show how these emerging neoclassical theories can provide cost-minimizing and utility-maximizing rationales for various aspects of labour market behaviour which have hitherto been assumed to be the result of vaguely specified and unilluminating 'institutional' characteristics or 'customary' features of labour market behaviour. ... we seek to use these thoghts to exorcise the analytical demons which have imprisoned thought on labour markets and poverty in Kenya." p.113.

a conventional simultaneous production function and factor demand model yields estimates of a statistically significant positive wage elasticity of employment of .4. For the industrial sector alone, average labor productivity fell during the late 60's and early 70's and rose in the late 70's while real wages were falling. Various attempts to identify exogenous technical progress did little to alter these anomalous results. However, after adjusting the capital stock data for utilizeable capital given constraints on imported intermediate inputs after 1980 and to demand constraints after the breakup of the East African Common Market in 1977, a consistent model yields the expected negative coefficient on real wages and the elasticity of labor demand with respect to the real product wage is -0.7. This is lower than the Harris and Todaro estimates which were slightly greater than 1 for the 1958-67 period.

Still a puzzle remains because in the adjusted model there is a consistent pattern of marginal product of labor being in the range 1.6-2.0 times the real wage. Taken at face value, this result suggests a consistent pattern of employment levels being kept lower than those that would be dictated by profit maximizing behavior and the point estimates state that employment should be increased by more than 50% in the industrial sector to achieve profit mazimization. A number of possible explanations are being investigated among then being industrialists having a degree of monopsony power in labor markets or that costs of adjusting labor forces are high so that adjustment to falling wages is much slower and less responsive than conventional competitive theory suggests.

The point is that the actual institutions of employment generation in the private competitive sectors are not fully understood and they should not be merely assumed away. Second, most growth of employment has been in the public sector which is clearly affected by political and financial considerations. The government is being forced into fiscal austerity which will have implications for both the wages and employment levels in this sector.

B. RURAL LABOR MARKETS.

By far the most important sector for labor absorption is small holder agriculture as shown in Table 4. While the Integrated Rural Surveys of the late 70's provide a considerable amount of information about the sector, the linked Labor Force survey of 1978 which has been used in part by Bigsten and Collier was seriously flawed and we still do not have a clear picture of labor absorption in the sector.

What we do know is that residually the sector has continued to absorb considerable numbers of workers, presumably with increasing amounts of education. The most careful study is that of Collier in 1983.[40] He combines two sets of observations from the Integrated Rural Survey. First, there is a strong inverse relationship between farm size and labor used per hectare which also shows in the same relationship between holding size and output per hectare. Differences in land/man ratios are large -- land per household memeber on holdings above 5 hectares is 19 times greater than on holdings of less than 0.5 hectares.[41] Yet, despite these large differences in factor proportions only about 10% of all labor input in the sector is hired. Even stranger is the observation that there is also an inverse relationship between farm size class and labour hiring per hectare. That is, small farms also hire relatively more labor. As a result, labor market transactions do very little to equalize factor proportions in the sector as efficiency would call for.

Collier examines a range of data and constructs plausible theoretical arguments relating the productivity of hired labor to the ability of the owners to monitor effort. The result is that larger holdings with relatively less family labor available, and with a higher probability of having male household heads absent for off-farm work, are also less able to supervise hired labor and therefore do not do so.

40 Paul Collier, "Malfunctioning of African Rural Factor M:arkets: Theory and a Kenyan Example," Oxford Bulletin of Economics and Statistics, V. 45, no.2 (May 1983) pp.141-72.

41 Ibid. p.144.

Collier points out that in much of Asia where similar differences in endowments occur, the solution has been to develop sharecropping institutions which are notably absent in Kenya. He concludes that there is an institutional breakdown -- because of the nature of land title and contract enforceability, efficient sharecrop or rental markets in land have not arisen. The proposition is interesting and well argued, but not proven.

Once more there is a lack of detailed institutional understanding of factor markets in the rural areas. The data on labor utilization are not fully reliable and data are not collected on land transactions. However, the findings are certainly consistent with casual observation in Kenya. The biggest gap is in detailed understanding of total labor allocations to all activities taking the extended household as the unit of analysis rather than the holding. There is a substantial literature from Kenya consistent with the notion of households spreading their resources over space to take advantage of a range of opportunities and to minimize risk.[42] That is certainly consistent with the evidence on urban earnings and rural innovation previously cited by Collier and the Johnson and Whitelaw evidence on remittances.

Following this line of argument, it is essential to

[42] This has shown up in a large body of literature on urbanization beginning with Wisner (____) who characterized the basic Kenyan social unit as "one household with two houses."

understand in more detail how Kenyan social units mobilize their resources for generating income and hedging against risk.[43] We will return in a moment to the important role played by investments in education of children by rural households which further emphasizes the importance of extended-family units. It also means that conventional measures of inequality on a rural-urban dichotomy may be seriously wrong since the same households will have members in both geographic (and production) sectors.[44]

C. EDUCATION

It is clear that investment in educatio has been a high priority for Kenyan households and generally seen as a good investment. In the early 60's, the Government tried to take a manpower-planning approach to education in line with the goals of the early development plans where labor bottlenecks were seen as important and educational disadvantage was a major obstacle to bringing development benefits to the African population.

The major response was for rural communities to construct their own schools (Harambee efforts) and then try to bring pressure on Government to take over the costs of staffing and running the schools. The result was that by 1972 there were more than 5 times as many secondary school

43 An example of how this analsis can be done fruitfully is Sara Berry's Fathers Work for Their Sons, (Los Angeles: University of California Press, 1985).

44 See J.R. Harris, "A Conceptual Framework for Analyzing Migration in Botswana," (Boston: African Studies Center Working Paper No. , 1983).

places as had been planned and the potential problems of labor absorption were keenly felt by politicians and policy makers.

Fortunately an excellent series of studies of education and labor market interactions have been done in the late 70's and early 80's by Richard Sabot and a number of associates at the World Bank and by Arne Bigsten .[45]

The general conclusions of that body of work, based on detailed surveys of earnings and education among Kenyan wage employees are that education is productive, that it serves more than a mere screening or signalling device, and that the private returns have been positive. The private returns are particularly large for persons able to obtain places in the subsidized government schools and the probabilities of obtaining such places is positively related to parents education and income. Further, it is shown that as the the supplies of educated manpower has increased there has been some relative compression of earnings differentials. Nevertheless, they also show that education has been an

[45] J. Armitage and R. Sabot, "Discrimination in East AFrica's Urban Labor Markets," (May 1983) forthcoming in N. Birdsall and R. Sabot (eds) Labor Market Discrimination in Developing Countries; M. Boissirie, J.B. Knight, and R.H. Sabot, "Earnings, Schooling, Ability and Cognitive Skills," American Economic Review; J. Armitage and R.H. Sabot, "Efficiency and Equity ..." op.cit.; J.B. Knight and R.H. Sabot, "Educational Expansion, Government Policy and Wage Compression," The Economic Journal; Armitage and Sabot, "Educational Plicy and Intergenerational Mobility: Analysis of a Natural Experiement," (Mimeo, 1983) among other papers prepared in 1982 and 1983. Arne Bigsten, op.cit.

avenue to upward socioeconomic mobility.

The big gap in all of these studies is that little is known about the returns to education for those who become self employed in agriculture or in informal sectors. What is known is that increasing numbers have been so absorbed desipite predictions for almost two decades that further labor absorption in those sectors would be impossible.

We are left with an appreciation of the increasing competitiveness of formal sector labor markets but do not fully understand the underlying determinants of expansion of employment in those sectors. In agriculture and infomal sectors we have only a few ideas and very limited data. Institutional failure in factor markets in small-holder agriculture have been suggested. The functioning of extended families in fostering factor mobility, spreading risk, adopting innovation, and investing at least in education is recognized, but the details are known only in fuzzy outline.

VI. CONCLUSIONS

A. WAGES, PRODUCTIVITY AND EMPLOYMENT

B. EDUCATION, EMPLOYMENT, AND MIGRATION

C. THE MEANING OF UNEMPLOYMENT

D. THE SIGNIFICANCE OF INSTITUTIONS

E. IMPLICATIONS FOR POLICY.