PLEASE NOTE THAT THIS IS A DRAFT. PLEASE CONTACT ITS AUTHORS IF YOU WISH TO QUOTE IT

The invisibility of wage-employment in statistics on the informal economy in Africa: Causes and consequences

Matteo Rizzo (School of Oriental and African Studies, University of London) and Marc Wuyts (Institute of Social Sciences, Erasmus University of Rotterdam.)

Introduction

It has become common to argue that in developing countries, and, more specifically, in the African context, wage employment has become the exception and self-employment the rule, particularly as a result of the growth of the informal economy. The self-employed are thus depicted as an amorphous mass of small-scale entrepreneurs pulling themselves up by their own bootstraps. The growth in informal sector employment, therefore, is said mainly to consist of the growth in self-employment. In fact, Keith Hart, the inventor of the term 'the informal sector', claimed that the 'distinction between formal and informal income opportunities is based essentially on that between wage-earning and self-employment' (Hart 1973, 68), a dichotomy that has been relentlessly adhered to by policy-makers in developing countries. The implication of this view of income-earners in the informal economy as self-employed rather than as wage earners is that it implicitly collapses productivity to the earnings of the individual since it is the individual who receives the product of all factor inputs (as both employer and employee). Taking this logic further, surpluses generated from productivity increases thus accrue entirely to the self-employed entrepreneur as agent of innovation. In this way, problems of low or stagnant productivity growth in informal production have tended to be explained with lack of skills, inadequate and/or absent credit markets for the financing of initial outlays for innovation by small entrepreneurs or inefficient /absent product markets. Policy attention has turned, therefore, to how to stimulate this growth in self-employment through formal titling of property to allow for access to credit, through micro-credit schemes and through providing training in entrepreneurship, particularly for the younger.

Mirroring, and arguably justifying, such an obsessive policy focus on the promotion of self-employment and small-enterprises are a wealth of labour force surveys which invariably suggests that own account business is by far the prevalent type of employment relationship in the informal economy (and in agriculture). In this paper we seek to question the widely-held assumption/claim that self-employment is the dominant mode of employment in the informal sector and the wisdom of statistics on the informal labour force, through a Tanzanian case study. The paper starts by reviewing some key insights from the Indian literature on the informal economy, and from relevant economic theory, to understand how conventional notions of 'wage employment' and 'self-employment' cannot capture the nature and variety of employment relations in the informal economy, The analysis then deploys these insight to look closely at the particular type of wage employment relationships to be found in one concrete example of informal economy in urban Tanzania. The real dynamics at work in one sub-sector of the informal economy, and the categories used by workers to describe their employment situation, are then contrasted with the categories and terms used to frame the questions of the latest Integrated Labour Force Survey in Tanzania (ILFS thereafter), carried out in 2006. The paper scrutinises how key employment concepts and words have been translated from English to Swahili, how the translation biases respondents' answers towards 'self-employment' and how it leads to the invisibility of wage labour in the collection of statistics on employment in the informal sector, both urban and rural. The paper also looks at the consequences of this instance of statistical 'tragedy'. We argue that, conceptually, this assumption leads to lumping together varied forms of employment, including wage labour, that differ markedly in their modes of operation that determine (or hinder) productivity growth (or the lack thereof) and the growth in incomes of the working population – the working poor, in particular.

Conventional categories of employment status and their applicability to informal employment

The catch-all category of 'self-employed' conveys a connotation of own-account and/or family business, of asset ownership, however limited, and with it of entrepreneurship and some degree of economic independence (Harriss-White and Gooptu 2001, 91). But, as Breeman argued, 'what at first sight seems like self-employment and which also presents itself as such, often conceals sundry forms of wage labour' (Breman 1996, 8). The reasons why such work might seem like self-employment, and also presents itself as such, are that wage labour that exists consists of unorganized labour, unprotected and casual, often combined with ownership of small-scale productive assets to engage in petty commodity production, possibly drawing on household labour, while both hiring in or out labour according to seasonal peaks or demand fluctuations. Hence, under conditions of low productivity in the context of the uncertain environment of informality, the character of wage labour assumes a variety of forms that cannot readily be identified with the conventional or 'formal' definition of wage labour, which generally refers to 'workers on regular wages or salaries in registered firms and with access to the state social security system and its framework of labour law (Harriss-White and Gooptu 2001, 89).

This conventional view of wage labour perhaps can best be illustrated analytically with the aid of de Quincey's famous remark about Ricardo's view of profits as 'the leavings of wages'. If the wage rate is predetermined (= agreed in advance), it follows that the profit per worker will be equal to the difference between the value-added produced per worker and the wage rate. If the price of the output or alternatively, (real) labour productivity falls short than expected, or demand falls short of planned supplies, profits will also be below expectations since the wage rate is fixed beforehand. The employer, therefore, bears the risk that average labour productivity (expressed in value terms) turns out to be lower than expected, given the level of the wage rate. The wage labourer, in contrast, bears the risk of unemployment if the enterprise continues to fail to live up to this expectation. This is the conventional view of wage labour in which the wage rate is fixed a priori and, hence, profits are the residual or, as de Quincey put it, 'the leavings of wages'. But, clearly, this kind of wage system is not particularly attractive to the owner of capital when labour productivity is low, volatile or unpredictable, which are precisely the conditions that prevail widely within the informal economies in developing countries. Formal wage contracting – particularly, involving protected wage labour – is unlikely to be widespread under such conditions. On the contrary, processes of 'informalization' of labour also operate within the formal sector through 'sub-contracting, putting out and casualization of labour' (Harriss-White and Gooptu 2001, 90).

But it does not follow from this that all activities within the informal sector are therefore based on self-employment and, hence, that the capital / labour relation ceases to exist or does so only marginally. On the contrary, under these conditions, wage labour exists, but in forms that differ markedly from this conventional formal definition of wage labour. To understand how informality works, therefore, it helps to turn de Quincey's phrase on its head: what prevails is not that 'profits are the leaving of wages', but on the contrary that 'wages are the leavings of profits'. The implication is that capital confronts labour not as the risk-taking entrepreneur but as a rentier, thus leaving labour to manage the risks inherent in low and volatile productivity, a condition that is more conducive to self-exploitation by the worker (or the exploitation of household labour) than to the growth in productivity. In these circumstances, therefore, workers act as entrepreneurs only in the sense that they have become managers of two sets of risks under adverse conditions of extreme competition: the daily insecurity that results from an uncertain income, on the one hand, and the ever-present chance of erratic job loss, on the other.

The case of Tanzania

One instance of informal employment relations in the real world ...

To further illustrate this point, consider the case of informal employment relations in the public transport sector in Dar es Salaam. It is Tanzania's largest city, with no less than 3 million people and a virtually extinct public sector transport company.[1] Approximately ten thousand privately-owned minibuses, known in Swahili as *daladala*, provide the cheapest form of public transport in the city. Results from two different questionnaires administered to these bus workers, in the late 1990s and early 2000s, converged in finding that family or household employment, so central to mainstream conceptualisations of economic informality (de Soto 1989), are the exception to the rule in this sector. Instead, the operations of *daladala* are characterised by a clear division between a class of bus owners and a class of transport workers. Over 9 out 10 of these workers, the total number of which is estimated to be between 20,000 and 30,000, earn a living by selling their labour power to bus owners.[2] Furthermore, the vast majority of these workers, (83.9 per cent of them) is employed without a contract (*kibarua* in Swahili).

Beyond the obvious fact that these are casual workers who do not own the buses on which they work, their actual employment relationship with bus owners does not easily translate into any of the conventional categories of 'paid employment' and 'self-

[1] UDA, Dar es Salaam public transport company, was operating about 20 buses in 2010. Unless otherwise stated, this section draws on Rizzo (2011, 1183-1200).

[2] The ownership of buses is not significantly concentrated. A variety of sources, including surveys and discussion with workers, consistently suggest that the 'average' bus owner owns one or two buses.

employment'. Some qualifications are therefore necessary to appreciate the dynamics at work, starting from highlighting what categories these workers do not fit.

Bus owners demand a daily sum (*hesabu* in Swahili) from workers for operating the bus. The daily return for workers will consist of whatever remains after the daily rent to bus owners, petrol costs, and any other work related expenditure (such as the cost of repairing a tyre or bribing oneself out of the hands of traffic police) have been deducted from the gross income on a given day. Workers' are therefore not waged in a conventional sense, nor it would be correct to label them as piece-workers, as their daily return is uncertain. This is vividly shown by the fact that 67 percent of workers answered that they their daily income was unpredictable. Furthermore, working at a loss, i.e. ending the working day without being able to collect the daily sum expected from the owner, or, more frequently, not having enough cash to fill the full tank with petrol, is not an uncommon outcome at the end of a working day. In this case workers would fill part of the tank, which would imply that the daily sum to be earned the day after would be even higher.

The fact that workers are not waged in a conventional sense, nor they are piece-workers, does not imply that labelling them as self-employed micro-entrepreneurs, as widely-held by policy-makers and official statistics on the informal economy, is a better fit. Recalling the key fact that these workers do not own any capital (in this case the buses on which they work), categorising them as self-employed would imply a notion of entrepreneurship and economic independence that would be highly misleading. It would also conceal the fundamental power relation between bus owners and workers at work here. The modalities of employment and of remuneration of the workforce can in fact be best understood as a strategy by bus owners, or *de* facto employers, to transfer business risks squarely onto the workforce. At the beginning of each working day, the profit for bus owners is known, the return for the workforce, if any, is uncertain.

Daladala workers sell their relatively unskilled labour to employers in a context of an oversupply of unskilled job seekers. This significantly tilts the balance of power between bus owners and bus workers in the former's favour, as evident in the fact that bus owners impose the daily sum expected for a day of work on workers without any real negotiation. Uncertain returns, harsh working conditions (the average working day lasts 15 hours and the working week more than 6.5 days), and occupational uncertainty (as work on a given bus lasts less than 8 months on average) are the consequences of the very high daily sum that owners expect from bus workers at the end of each day. Financially squeezed by bus owners, workers' respond by speeding, overloading the buses and by denying boarding to passengers entitled to social fares, all of which can be explained as actions aimed at maximising return from work on a given day. The lack of regulation of labour relations in the *daladala* industry thus lies at the root of the infamous unruly conduct of its workers.

This is just one example of the employment relations to be found in one particular type of informal economy activities in one context. It illustrates the way in which conventional categories of both 'wage/paid employment' and 'self-employment' do not easily apply to the reality faced by those informal workers and the complexity of the employment relationship linking them to employers. At the same time, however, it is important not to lose sight of two key characteristics that ultimately define their employment status. First, these workers do not own any of the capital with which they work in the informal economy. A clear division between capital and labour can be observed here, making the notion of self-employment implausible in this case. Second, it is due to workers' economic vulnerability that they are deprived of a conventional wage employment relationship to employers. But in light of the fact that these workers only own their labour, they are best categorised as people in (uncertainly) paid employment in the informal economy. Many other forms are to be found in different economic sectors and in different contexts, with the working poor often straddling precarious wage employment with some ownership of equally insecure very small-scale activities in the informal economy (Bernstein 2010). Notwithstanding the heterogeneity of employment relations in which the poor can be engaged, they certainly do not easily match the conventional conceptualisation of both 'paid employment' and 'self-employment'. With these remarks in mind, the analysis now investigates how these conventional categories are put to work to generate statistics of the informal economy, through the case of the 2006 Integrated Labour Force Survey in Tanzania.

... and the 2006 Integrated Labour Force Survey

The 2006 ILFS constitutes no exception to the fact that Labour Force Surveys in developing countries, and especially in Africa, tends to invariably identify self-employment as the predominant type of employment status in the informal economy.

Table 1

Table 6. 7 Engagement in the informal sector by employment status, 2006

Employment status	Main activity			Secondary activity		
	Male	Female	Total	Male	Female	Total
Paid employee	0.7	0.7	0.7	0.6	0.2	0.4
Self employed (non-agricultural) with employees	17.0	9.9	13.8	7.8	3.2	5.6
Self employed (non-agricultural) without employees	81.1	87.1	83.8	89.8	94.4	92.0
Unpaid family helper (non-agricultural)	1.2	2.4	1.7	1.7	2.2	1.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

As Table 1 shows, 'paid employment', at a mere 0.7 per cent, is deemed to be a very rare type of employment relationship in the informal sector. Self-employed workers without employees are the most significant type of employment status, at 83.8 per cent. Together with self-employed workers with employees, at 13.8 per cent, self-employment totals the staggering figure of 97.6 per cent of employment in the informal sector.

Understanding the way these statistics are generated must start with a discussion of the definition of informal economy adopted by ILFS, as this has important implications on the kind of questions asked to inform the statistical picture on informal employment. The ILFS adopts a definition of the informal sector that closely follows the International Classification of Status in Employment (ICSE). Two characteristics are worth underlining at this stage. First is that the 'informal sector is considered as a subset of household enterprises or incorporated enterprises owned by households'. (7) The pitfalls of treating the household as an uncontroversial and coherent unit of analysis have been raised, specifically in poverty surveys (Johnston et al, this issue) and at a more general level in the study of the process of development (Peters). Second, according to ILFS, informal enterprises might or not employ labour. Importantly, what differentiates labour-employing informal enterprises from those without a workforce is whether employees are employed 'on a continuous basis'. In other words, those informal enterprises employing 'employees on an occasional basis' will be classified as self-employment activities without employees. The implication of this on the results that ILFS yields are serious. Given that informal employment relationships, by their own nature, are often insecure and not continuous, such a categorisation results in a systematic bias towards underestimating the number of employees actually employed by informal enterprises.[3]

The importance of paying attention to the way in which key employment and work concepts are translated from English into other language in labour force surveys is often acknowledged in the literature but very rarely followed through. This is problematic as ultimately it is in languages other than English that questions are posed to respondents of Labour Force Surveys. Translating words and concepts, often ideologically loaded and context specific in their origin, into other languages is not an easy task. Its results obviously matters as respondents to questionnaire make sense of questions of employment with local categories in mind. As the analysis below will show, there is a lot to be lost in translation in the process of translating the labour force questionnaire in Swahili.

Putting concerns about the household as unit of analysis aside for a moment, consider for instance the ILFS introductory question on the household economic activities, to be answered by the head of the household on behalf of his/her household members. In English it reads 'Does this household or anyone in this household engage in any of the following activities? a) Wage Employment (yes/no) b) Working on own or family business (excl. Agriculture) c) working on own shamba, fishing or animal keeping d) do you have any paid employees.' (NBS, ILFS 2006, FORM LFS 1 p.3.) What differentiates the four (not mutually exclusive) possible answers, at least in the English version of the questionnaire, are the three possible types of employment statuses: 1) being employed (a); 2) working on own business (b) and own-account agriculture (c); and 3) being an employer (d). In Swahili however, 'working on own or family business' is translated as 'kazi isiyo ya kilimo' which literally

[3] One can discern a similar bias against capturing 'paid employment' in the informal economy and recording it as unemployment instead. Thus the ILFS states that 'paid employees are persons who perform work for a wage or salary in cash or in kind. Included are permanent, temporary and casual paid employees' (36). However, one also read that those persons 'who were working but whose work was not reliable with regard to its availability and adequacy in terms of hours were considered unemployed (23). Thus, much of precarious underemployment in the informal economy is questionably classified as unemployment.

means any ‘work that is not agriculture’. Strikingly, and misleadingly, the reference to self or family employment in business or agriculture, central to the English wording of the questionnaire, is dropped altogether.

The section of the questionnaire on individual respondents’ main economic activity (rather than on households at an aggregate level) does better, as it presents an accurate correspondence between English and Swahili survey questions. This time around respondents are in fact asked whether their work entails self-employment ‘kujiajiri mwenyewe binafsi’. However, what matters above all, in respondents’ choice of the answer that best describe their employment status, is how they understand the main alternative answer they might opt for, ‘paid employment’, to which the analysis now turns.

The translation of the term ‘wage employment’ in Swahili is not without problems either. The term used in this case is ‘ajira ya msharara’. While this literally means wage (mshahara) employment (ajira), such terminology clearly connotes registered employment in the formal sector, ‘proper jobs’ for the lay Swahili mother-tongue speaker. As a taxi driver put it, when interviewed by one of the authors on how he would describe the categories used in the ILFS, ‘you can identify yourself as having ‘ajira ya mshahara’ if you have a formal employer, a contract and a wage.’ Part of the problem lies in the ambiguity of the term ‘ajira’ in Swahili. Broadly speaking ajira’ is used to mean employment of any type. In this sense, one reads and hears that ‘Tanzania tatizo ni kwamba hakuna ajira’ (the problem in Tanzania is that there is no employment). Yet at the same time people use the word ‘ajira’ to mean registered employment, as opposed to employment of precarious and informal nature. For example, d*aladala* workers, informal workers whose employment is informal and precarious, can often be heard saying that ‘tatizo la kazi ya *daladala* ni kwamba hakuna ajira. Kibarua tu.’ (the problem of work in *daladalas* is that there is no formal employment. Only casual work). Failure to appreciate the two possible meanings of the word ‘ajira’ in Swahili would potentially allow the implausible translation of the sentence above as ‘the problem of work in *daladalas* is that there is no employment’! Instead, when workers refer to their work as work without ‘ajira’, they mean that it is work without rights and security, or informal. The way in which the concept of ‘paid employment’ is translated is Swahili by ILFS is therefore fails to connote informal wage labour in a way that reflects how the lay Tanzanian speaks about it.

The bias against recording informal wage employment is present also in the questionnaire section focusing on working patterns of individual members of the household. The question on ‘what was the economic activity in which you spent most of your time’? has ‘employee in a wage job’ as one of its five possible answers (the other four being self employed, working on your own or family farm, unpaid work in family business and other). The Swahili wording of ‘employee in a wage job’ as ‘mwajiriwa wa kulipwa’ once more points to formal sector employment. And so do the range of subsectors in which an ‘employee in a wage job’ might be employed: the central government, the local government, a parastatal organisation, a political party, co-operatives, NGOs, international organizations, religious organisations and the private sector (LFS 2, p.3). It is very plausible that a respondent answering this question, and failing to match his/her informal employer with any of the possible employers from the survey list, will not opt for declaring himself/herself as an ‘employee in a wage job’.

ILFS therefore puts forward a stark and questionable dichotomy between paid and self employment, and a leading one at that. Consider the implications of the translation issues of ‘self-employment’ and ‘paid employment’ together. On the one hand, ‘self-employment’ is translated in extremely loose terms, to the point that any work outside agriculture seemingly fits into it, or that work by people who do not own any capital can be misleadingly identified as ‘self-employment’. In the words of the same taxi driver, ‘you could call me self-employed if I owned the car on which I work. Or if owned the capital with which I opened a small shop and worked on it. But as I don’t own my car and work for someone without any contract, you should call me a kibarua, a casual worker… You can’t call me a paid employee either, as I don’t have an employer’. On the other hand, paid employment is translated in very narrow terms, so that only those in formal and registered paid employment are likely to identify themselves as ‘paid employees’. Arguably it is out of this contrast between an over expansive notion of self-employment and an extremely narrow notion of paid employment that the official image of the informal economy as a teaming mass of family entrepreneurs and self-employed are created.

Such picture of economic informality as self-employment is then consistently built upon by the 2006 ILFS, specifically through its modules on the informal economy seeking to gather information on the informal business (see questions 26-32 who are designed for ‘business owners only”). Such focus entails seek to understand why businessmen in the informal economy set up their businesses, where they operate it from, how continuously, their sources of credit and of training. Our readers will hopefully by now questions how many of these respondents can be understood as businessmen in any meaningful way. Tellingly no comparable level of detail of questions is devoted to understand the nature of informal wage labour, or the work of *kibarua*, a word ubiquitously referred to by informal wage workers in Tanzania to describe their status, and yet strikingly at the margin of the 2006 ILFS.

Concluding remarks.

This paper has argued that wage labour is far more prevalent within the informal economy than it is made out to be by official statistics, according to which it hardly exists. At the root of the invisibility of informal wage labour lies the fact that conventional categories of 'self-employment' and 'wage employment', on which labour force surveys rest, are inadequate to capture the heterogeneity of employment relations that can be found in the informal economy, and of the relationships between capital and labour that mediate poor people participation in the (informal) economy. Through a close look at the case of Tanzania, the paper has highlighted the remarkable distance between the complexity of the employment relationships linking informal wage workers to employers in one sub-sector of the informal economy and the clear cut categories used to frame questions for the 2006 ILFS. The analysis has further argued that the Swahili words chosen to ask workers whether they are in wage employment put forward a very narrow connotation of paid employment in the formal sector. By contrast 'self-employment' is translated in extremely loose terms, arguably acting in Tanzania, as observed by Breman with reference to the Indian context, as a 'catch all' category. In sum, this paper argues that the ILFS statistical suggestion that only 0.7 percent of workers in the Tanzania informal economy are wage workers, and the remaining is one way or another self-employed rests on disturbingly shaky grounds.

The purpose of using the same categories of 'paid employment' and 'self-employment' to survey the state of labour forces across countries is of course to compare individual countries and changes within countries over time. However, such purpose is defeated from the outset if the picture of informal economies presented by LFSs have indeed no analytical purchase on actual realities on the ground, as we would argue with reference to the Tanzania 2006 ILFS. Instead, the goal of being able to compare labour markets and informal economies across countries is arguably acting as a barrier to understand the working relations in which the working poor are emmeshed and as a vehicle to justify policy makers tired utopias of eradicating poverty through various forms of support to informal micro-enterprises.

How could one begin to address such a myopic policy focus goes hand in hand with and what kind of data are needed to build less unrealistic statistics on the informal economy? Two types of broad consideration can be made as a way of conclusion. The first concerns the limits on the scope for innovation within informal production and the second the viability of labour intensive production based on ‘cheap labour’.

First, with respect to innovation, the extent to which the self-employed worker receives surpluses from productivity gains depends critically on the extent to which others can appropriate these surpluses. More specifically, in conditions where the self-employed worker organises production and productivity but does not receive the gains from productivity increases, the incentive for innovation is likely to be severely constrained or may even turn perverse, particularly when provoked by sensible risk-reducing responses to extremely adverse conditions leading to low-productivity equilibrium traps. The design of policy to bring about innovation and productivity increases therefore requires the uncovering of the relationship between productivity growth and the growth in labour earnings. More access to credit and financial instruments alone will not address the challenges to innovation and productivity increases posed by the relationship that exists between productivity and labour earnings in contexts that vary across sectors, between urban and rural settings, across countries as well as in time.

Second, the distinction between labour productivity and labour earnings per worker draws attention to the fact that that inflation in the price of necessities, food in particular, relative to other prices can erode the viability of the growth of labour intensive production. In this respect, it is important to distinguish between the real wage and the product wage. A rise in the real wage implies an increase in the standard of living a worker can afford; a fall in the real wage decreases the standard of living. Given the nominal wage, therefore, the real wage depends on the prices of necessities. In contrast, the product wage is obtained by deflating the nominal wage by the price of output and, hence, represents the quantity of output that a worker could buy with his or her own wage. Given the level of labour productivity, an increase in the product wage squeezes profits; conversely, a fall in the product wage leads to an increase in profits. The real wage and the product wage do not necessarily move in unison. Consider the case where the price of foodstuff rises much faster than other prices in the economy, as was the case in Tanzania and Mozambique in recent years. If nominal wages adjust upwards to keep the real wage constant, the product wage will rise and, hence, unit wage cost will rise as well. If this leads to a squeeze on profits, particularly in labour intensive production, employment may fall or its growth will be stunted. Alternatively, if the nominal wage does not adjust to the rising cost of wage goods, the product wage and unit wage costs remain the same, but the real wage will fall. Adjustment takes place at the expense of falling real wages, which may thus lead to an increase in the incidence of poverty. What often actually happens is a combination of both these processes at work, with real wages (partly) protected in the formal sector (restraining its potential for employment expansion) while falling in the informal sector, which then becomes a dumping ground for the working poor.