

TANZANIA'S CONTINUING ECONOMIC CRISIS - 1982

By Reginald Herbold Green

Tanzania is in the midst of a severe economic crisis which became visible in mid-1979 and shows no signs of early abatement. From record levels of real output per capita, purchasing power of exports, foreign exchange reserves and recurrent budget surplus in 1977-78 it experienced precipitate falls to the end of 1979. Since then, while decline has been slowed, underlying productive capacity and infrastructure are still deteriorating because of inability to finance imports and real welfare is still drifting downward with inflation outrunning minimum wage, grower crop price and - especially - salary increases.

That much is agreed by Tanzanians and outside observers. On causes, cures and more detailed facts tremendous differences arise. There is little doubt that external factors have been critical. Between 1972 and 1975 the changes in export and import prices cost Tanzania about an eighth of the purchasing power of its output (which is now of the order of £175 average for its 19 million people). This was fully recovered in the 1976-77 coffee boom, but since then a new loss of 15% has occurred - in 1982 the average import capacity per unit of exports is about half what it was in 1972 or 1976/77. This has not been offset by rises in aid - on the contrary, real aid per capita (perhaps £18 per capita including technical assistance today) peaked in 1973 or 1974, fell rapidly and has never regained its past peak. For Western countries there has been an upward trend since 1977 but this has not fully affected the rundown of Chinese assistance.

Therefore, imports have had to be cut about one fifth in real terms since 1977/78, and the economy operates far below existing production capacity. As a result, personal per capita consumption of manufactured goods and transport is down a third since 1977, and the recurrent budget is heavily in deficit because of shortfalls on sales tax and company tax on domestic manufacturing.

However, there is no doubt that four domestic causes have exacerbated the external factors which, beside the terms of trade, include military costs consequential on the Amin invasion and poor weather in 1979-81 following the 1976-78 run of good weather and record food crop years. The most critical was failure to give priority to increasing exports which actually declined about a fifth between 1970 and 1980.

The second was acceptance of the OECD view that 1976-77 represented a sustainable return to normal of the world economy, not a mere breathing space in a continuing crisis. As a result, Tanzania assumed a buoyant world economy, accepted external advice to liberalise imports, and adopted relatively lax budgets in 1976-77 and 1977-78.

Third, total failure to develop a coherent storage policy for food led to the loss (via spoilage or conversion into poultry feed and dumped exports to avoid spoilage) of up to 600,000 tonnes of 1976-78 surpluses procured as reserves. This loss is comparable to 1979/80 - 1981/82 maize imports.

Fourth, until 1980 the agricultural pricing system had deteriorated from reasonable coherence in 1974/75 to anarchy, and after 1976

so had the operations of the central grain purchasing and distribution company. Ironically, storage policy, grower price policy and the creation/non dismantling of totally centralised grain handling were over 1975-79 areas in which Tanzania acted almost totally on foreign export advice - a factor in its present doubts about foreign analyses and prescriptions.

Tanzanian self-criticism and review leading to action has been penetrating and continuous at least since late 1979. It has sought to identify specific causes and concrete measures to overcome them, and to avoid dubious generalised ideological solutions (eg, 60% devaluations or 50% cuts of real minimum wages which are now about £35 a month) and confusing consequences (eg, the fall from 65% to 30% utilisation of industrial capacity) with causes (lack of the imported spares, fuel and raw materials).

Both the recurrent and capital budgets have been cut in 1979-80 revisions, 1980-81 and 1981-82 in real per capita terms. The heaviest cuts have been on defence and related expenditure (down about 40% in constant real terms in 1981-82 from 1978-79) and new capital expenditure projects (down over 50% on the same basis). However, regaining the continuous 1961-1978 record of recurrent surpluses (versus a 1980/81 deficit of over £100 million, or a sixth of recurrent spending) depends on restoring manufacturing output (now over a quarter below its 1978 level) and thus sales tax.

The central thrust embodied in the 1981 and 1982 National Economic Survival Programmes is to raise exports. In 1980 these paid for only 40-45% of imports. In 1981, with the new priority, the achieved ratio rose to about 50% while the 1982 target is 60%. The immediate means used includes priorities in imports, (eg pesticides, spares), transport, improved procurement for existing crops.

The longer term measures include concentration on two key projects - Mufindi Pulp and Paper and Kilwa Ammonia/Urea - which could, if completed by 1984, provide 1990 net export earnings in excess of those of coffee.

Increased scrutiny of managerial efficiency - always a priority but one less stressed over 1977-79 - has resulted in a number of institutional overhauls. The problem is to bring the worst (eg, National Milling which lost £125 million over 1977-79 without anybody knowing it, so bad were its books and physical records) up to the standards of the best (eg, National Bank of Commerce and Tanzania Petroleum Development Corporation whose 1980 pre-tax profits approximated £50 million).

This effort is greatly hampered by three factors. Import gaps have cut manufacturing output and raised costs, cutting a near 30% average return on capital employed in 1978 to the vanishing point by 1981.

Falls in salary purchasing power (over 50% since 1979) together with shortages create opportunities and incentives for corruption quite different from those of 1977 or even 1974-76. Morale - especially after overcoming the 1974-76 crisis and the 1978 Amin invasion - has been shaken by the apparently meagre rewards to major efforts and sustained austerity.

In the food and agriculture sector, the key problems do not include production trends which appear to be upward by 4 to 5% a year (eg, 4.8% in coffee measured from the 1975/76 to 1980/81 peaks). They turn on prices, input-transport-storage availability and availability of goods for peasants to buy with their earnings. 1979-82

has seen sharp increases in average grower prices relative to urban goods prices (and especially to wages and salaries) reversing the 1975-79 decline. It has also seen a reversal of absurd relative prices among crops such as that which has crippled the cashew nut industry.

While priority attention to inputs, processing and transport is being given, present import capacity means they remains inadequate. The storage development programme has not yet been put into practice, and only interim grain procurement and distribution institutional reform steps have been taken. Until these are achieved, staple urban food supplies (rural food shortages are limited both in degree or location) will depend on imports in bad weather years.

Making goods available in rural shops basically requires finding £100 million a year of imported inputs to generate £400 million domestic value added in manufacturing and local inputs, £200 million in sales tax and £900 million in retail price domestic manufactured goods sales. That £100 million a year is not in sight, and will not be for at least four to five years, unless interim aid increases to speed economic reconstruction can be mobilised.

The 1980 IMF programme proved still-born for two reasons: it assumed a £50 million a year World Bank structural adjustment programme would be concluded within months, and that the 1981 coffee price would not fall much below 1980. Neither was correct, so that the foreign exchange needed to meet the targets simply was not available.

Prospects are-as of early 1982-poor, but not disastrous. The Tanzanian strategy adjustments and initiatives have halted chaotic decline and bought time. They have limited falls in minimum wage earner and peasant purchasing power and preserved most of the gains made in respect to basic education, health and water supply. The key requirement of raising export earnings is being pursued with some success, and the attention to removing and restructuring to improve average efficiency shows initial results.

However, if the Tanzanian restructuring and recovery is to proceed rapidly in terms of restored levels of purchasing power and basic services, then additional external financial transfers are needed. These are not so much for new projects - which are fairly well financed now - but to allow operation and maintenance of existing capacity, payment of commercial payments arrears (£175 million) and generally loosen the strangulation of production and efficiency by import constraints. To achieve such transfers Tanzania has over 1979-81 negotiated extensively with the IMF and World Bank while developing and acting on its National Economic Survival Programme. However, Tanzania has seen many of their proposals as inconsistent with recovery and development (including safeguarding peasant and worker incomes) so has to date felt compelled to pursue the NESP with the, admittedly inadequate, resources available to it from exports and existing aid flows.