

Chapter 3

IMPORTED INFLATION, GLOBAL PRICE CHANGES AND ECONOMIC CRISES
IN TANZANIA 1970-1982

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In the present economic order we have two rights - to sell
cheap and to buy dear

- President J.K. Nyerere

A world without growth and without rules is harder on poor
countries than on the rich

- Commissioner Edgard Pisani

I. Introduction

Tanzania: A Structural Overview

Tanzania is a relatively large (900,000 square miles), moderate population (20 million) low GDP (\$200 per capita, national \$4,000 million 1981) country. It is by UN definitions among the "least developed" and "most severely affected". Over 1961-1971 and 1971-1979 it achieved moderate rates of growth, about 4.5% per annum for real GDP and 3.5% for agricultural output (above the 2.75-3% population growth) - a performance above the "least developed" and Sub-Saharan African averages but below its own goal of 6%.²

The economy was until 1973 structurally very open with exports plus imports exceeding 50% of GDP. By 1981 the ratio had fallen to about 35% but more because of relative price changes and stagnation of exports than because of reduced external structural dependence. However, the makeup of imports had shifted over 1961-81 from domination by final consumer goods to about 50% capital goods, 33% intermediate (of which two thirds petroleum) and 18% consumer goods (of which almost three

fifths food).³

Tanzania has no domestic oil source. Electric power is basically hydro and household consumption basically wood. Historically it has usually been a net staple food (cereals) importer, albeit beverages (coffee, tea) and speciality foods (cashew, cardamon) dominate exports.

Inflation in Tanzania through 1979 paralleled global trends - 1979 price levels were 151 (to a 1975 base) versus the world average of 152 albeit the rate of increase over 1971-75 was higher and over 1976-79 lower.⁴ 1980-82 has been marked by unprecedented (25-33%) annual cost of living increases⁵, inflation linked to import strangulation of production which has not merely reduced availability of goods but caused the government recurrent deficit by eroding the indirect tax base.

And a Political Economic Sketch

The public productive sector is dominant in large and medium scale activity - except road transport and construction. Through import/export, wholesaling, financial and agricultural marketing dominance it has substantial leverage over retail trade and perhaps two thirds of marketed peasant production which comprise two thirds of exports and half of domestic food.⁶ Its performance has been uneven. Finance and distribution performance is above average, manufacturing mixed and agricultural production and marketing (except coffee) below average. The sectoral total for public enterprise operating surpluses peaked at about 6% of GDP in the early 1970s (and again in 1977) but then fell to near zero.⁷ The negligible net surplus sectorally is made up of cross cancelling enterprise surpluses and losses of about 4% of GDP.

Domestic economic integration has been stressed, with substantial progress but major gaps in capital goods (except construction materials), fuel and - in bad weather years - staple food.⁸ By increasing the ratio of machinery and transport equipment to investment and GDP, the structural integration strategy has raised absolute import requirements and achieved only slow declines in the ratio of imports to GDP.

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Reduction of inequality of income distribution and of access to basic services (health, education, water) have had sustained emphasis since 1967 with substantial results.⁹ The ratio of the top 1% to bottom 20%, of public sector employees pre-tax incomes was about 5 to 1 in 1980. Literacy has been raised to 70-75%, access to water to over 50% and life expectancy to 51 (from about 35 at Independence).

The basic planning approach has been a managed market one, via price incentives and disincentives together with a large public enterprise sector. Since 1971 foreign exchange and bank credit budgeting have also been central to economic management. Physical balance planning is very limited in coverage and compulsory production or delivery systems unknown. Fiscally Tanzania has traditionally followed a high tax, balanced recurrent budget policy. The first recurrent budget deficit, which came in 1978-79, was linked to the war with Uganda.

Until 1980 there was no overall export strategy - positive or negative. Fragmentary product (e.g. tea) and sectoral (e.g. pre-export processing) strategies existed but received relatively low policy or resource priority.¹⁰

II. International Determinants: 1970-82

Toward An Export Impasse

Exports are dominated by eight primary products - in descending order coffee, cotton, cloves, diamonds, sisal, cashew nuts, tea and tobacco plus sisal twine and cashew kernels. With the exception of cashew nuts and diamonds these products have been characterised by low global consumption growth and by real price patterns ranging from secular through moderate decline, to trendless radical instability. They account for 75-80% of total exports, which in 1981 totalled about \$500 million (a nominal record and a recovery to about 90% of the 1966 volume peak). However, volume and value have since declined by about 30%.¹¹

Manufactured goods exports - excluding residual oil - have been as high as 16% of exports in 1979 but declined to under 10% in 1981. In the

case of processing (leather, cashew kernels, sisal twine), supply constraints at the imported spares/chemicals level, shortages of raw materials and - in the case of sisal twine - European cartel non tariff barriers were dominant. In other cases the devastating impact of import constraints on manufacturing affected several producers (e.g. tyres, batteries, aluminium circles) as did lack of foreign exchange or the availability of reciprocal tradeables from previous external purchasers (e.g. textiles).

The lack of a coherent export strategy to 1980-81 and the global (and consequent national) terms of trade shifts against several exports have led to a slow decline in export volume since the mid-1960s. Declines in both volume and receipts have been exacerbated by losses totalling perhaps \$175 million in 1981: about a quarter from faulty 1975-80 pricing (especially for cashews), another quarter from delays in payment for crops and a half from import constraints on fertiliser, pesticides, transport and processing equipment.

Imports: Price Explosion, Quantity Implosion

Superimposed on the 1961-81 trend toward dominance of capital and intermediate goods imports have been sharp price changes and a cereals import pattern related to taste changes (to wheat and rice), drought (1973-74, 1979-82) and inadequate storage (600,000 tonnes food loss over 1976-80 i.e. 2 years drought level imports).

Petroleum prices rose over tenfold during 1974-81 while quantity fell about 7%. Share in imports rose from 6% (netting out transit trade) to 22%. Over 1973-76 however a massive increase in grain imports (paralleled by a trebling of unit cost) had a greater impact on external balance than did petroleum prices. This was not repeated in 1979-81. Import quantities were significantly lower and there was no grain price explosion so that 1981 total food imports were nearly 10% of all imports versus 3.5% in 1970 and 22% in 1974.¹²

No reliable terms of trade data exist. Because of transport cost and differential price increases - related to commercial arrears - Tanzania's unit costs of manufactured imports have risen faster than

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global averages. Rough estimates based on partial data suggest 1981

gross barter terms of trade were about 50 to a 1977 base or 55 to a 1972 one (1976 was about 65 to a 1972 base).¹³ This means that at 1977 relative prices, 1981 exports would have covered over 100% of actual imports as opposed to just over 50% at 1981 prices.

External Finance: Costs and Limits on Access

Tanzania has never had substantial access to normal commercial credit. Over 1978-82 it used about \$250 million of supplier export credits and ran up \$300-350 million commercial arrears (by 1982 including \$50-75 million delayed government debt service) in attempts to sustain investment and import levels respectively. External grants and soft (or semi-soft, e.g. World Bank) loans have been a major source of foreign exchange. In 1973 they were about Sh1,200 million (35% of imports), in 1977 Sh1,800 million (30% of imports) and in 1981 Sh3,500 million (37% of imports). Divided by average import prices 1981 aid in real import capacity terms was perhaps as high as 1973 or about 25% lower on a real per capita basis.¹⁴ The 1981 total of grants, soft loans and import support was about \$20 per capita.

Therefore, external finance could not cushion the 1973-82 fall in earned import capacity. Aid was stagnant in import capacity terms while indiscriminately used export credits and accumulation of arrears only postponed the import constraints' impact on investment and production briefly, at a high cost in terms of still greater constriction in 1981 and 1982.

III. National Macro-Economic Policies

1970-72: A Prelude¹⁵

In 1970-72 Tanzania faced its first post-independence foreign exchange crisis. Gradual declines from late 1969 culminated in a massive fall in the second half of 1971. The causes were fairly readily identifiable: excess domestic credit formation (to enterprises), capital flight to

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Kenya (following nationalisation of rented buildings), a shift in State Trading Corporation (STC) buying policy from 180 day external commercial credit to fob financed by domestic overdraft, and STC stock control and ordering weaknesses.

The measures taken included detailed foreign exchange budgeting and allocation, commercial bank credit allocation (to major enterprises and the government), exchange control on transactions with Kenya and Uganda and a restructuring (decentralisation) of STC. By the end of the first quarter of 1972 reserves were on the rise and continued to climb reaching record levels in the final quarter of 1973.

Over the same period, concern with imported inflation - and especially its magnification in the distributive system - led to the creation of a prices management commission. Its approach was efficient production cost plus a proportion of assets or net worth combined with fairly tight restrictions on gross distributive margins. This strategy was moderately successful until 1978 but has since been largely swamped by the extreme scarcities and falling capacity utilisation ratios of 1979-82.

The 1974-76 Emergency Programme¹⁶

In early 1974 the government realised that - despite high reserves - it faced a crisis from quadrupled oil prices and massive grain imports consequent on the 1973 and projected 1974 drought impact on harvests. The choices debated were a classic demand reduction approach and a 'produce/invest out of trouble' strategy calling for substantial bridging finance. The latter was adopted - largely because the political climate was favourable to it but partly because it was technically better presented (largely by the Ministry of Finance). The policy package adopted in the second quarter of 1974 included: near immediate adjustment of domestic prices to imported fuel, fertiliser and oil price rises and to 50% grower price and 40% minimum wage (tailing down to 6% on upper salaries) increases; protecting real income of peasant food growers (via grower prices), minimum wage earners, drought hit areas (by 'famine' relief); sustaining enterprise surpluses (by price increases) and recurrent budget balance (by tax increases -

including on petroleum products - and a 1974/75 freeze on recurrent expenditure). It also aimed at maintenance of real investment levels; consumption cuts; and production promotion centred on food (grower prices and input subsidies), consumer and intermediate goods manufacturing to reduce the ratio of imports to GDP and, in theory, export development. Other main measures taken included tightening foreign exchange and bank credit allocation and mobilising bridging finance (e.g. IMF - SDR's, oil facility, first credit tranche) and interim (e.g. bilateral grants, IBRD programme loan) to cover the anticipated 1974-76 bulge in the trade deficit.

This policy was in a sense demand management via demand switching to protect low income groups and to maintain investment and basic services. Over 1974-76 the strategy was pursued - with distinct lags on the completion of projects in manufacturing and rather low attention to the export component. It was largely successful. After a poor 1974, growth returned to over 5% a year, manufacturing returned to fairly rapid expansion, record total and marketed crops were recorded, reserves rose. What was not fully noted was how heavily this depended on the 1976-77 beverage price boom (which sent coffee to 20 year record real peaks) while, in volume terms, export stagnation/slow decline had not been reversed.

1977-78: The Typhoon's Eye

With reserve levels climbing to five months imports at their late 1977 peak and the recurrent budget (which on normal accounting had remained just in the black) returning to healthy surplus, a certain laxity in respect to external and internal balance emerged. Foreign exchange budgeting was greatly relaxed (including for non-essential consumer goods) under Bank/IMF pressure¹⁷ and bank credit formation controls fell into disuse. The overall rate of domestic credit formation expansion was low, masking a disquieting increase in respect to grain marketing, which in fact represented losses not inventories. The 1977-78 and 1978-79 recurrent budgets were optimistic, creative or lax depending on point of view.

With the collapse of the coffee boom and the rise in imports, reserves

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melted away in 1978 and the recurrent budget moved toward deficit. An imminent crisis (the response to which was already delayed relative to 1974's action time frame) exploded into an immediate one - and attention was distracted from its resolution - by the war which followed Uganda's invasion of Tanzania's Kagera region in the last quarter of 1978.¹⁸

Tactical Sorties and Strategic Retreats: 1979-81

Over 1979-81 no effective adjustment strategy comparable in relevance, operationality or results to 1974-76 was achieved. Until mid-1979 the demands of the war prevented proper estimation of (or single minded attention to) the requirements of adjustment, while belief that the 1979 poor harvest, 1979-80 oil price rise and the industrial economy stagnation would be reversed as quickly as 1973-74 problems, hid the true magnitude and urgency of the rapidly opening external gap. By the time a full scale attempt to reduce government expenditure was possible in late 1979, the recurrent budget deficit had exploded to 10% of GDP and the revenue base (dominated by sales tax on domestic manufacturers) was being eroded by import constraints.

Compared to 1974 there were fewer consumer goods imports to cut so that reductions were delayed; they came after a buildup of suppliers credits and arrears had mortgaged the future and had rapid negative results on manufacturing, agriculture, transport and exports. Initial efforts to maintain investment (queried in 1980 and reversed in 1981) were both foredoomed and inappropriate given the length and depth of the terms of trade decline, the much lower starting level of real per capita aid (at least 35% below 1973 in 1977) and the lack of low conditionality IMF facilities. Similarly while the real prices of food and selected export crops were raised, attempts to protect the real minimum wage in 1980 and 1981 proved unsustainable given continued bad weather and the 40% 1978-81 fall in real manufactured goods production. Weaknesses (from deferred maintenance and total loss of physical and financial control by several agricultural marketing corporations) which had built up from 1973 (and not been fully attended to in the 1977-78 period of relaxed resource constraints) were brutally exposed by the new pressures and diverted attention to desperate - and none too successful - patchworks. Tanzania's adjustment proposals were not seen as credible by the IMF and

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Bank leading to long delays in negotiation - which eroded the underlying position long enough to make the proposals obsolete - or to incomplete and fudged packages which had no chance of success (e.g. 1980 IMF programme, especially given the failure of the Bank's expected - and budgeted in the IMF projections - Structural Adjustment Programme Credit to materialise¹⁹).

Thus by 1982 Tanzania - despite ruthless cutbacks which had won some time in 1980 - faced a far more severe crisis than in either late 1974 or late 1979. While an export strategy had been agreed in principle in 1980 and articulated to some purpose in 1981, its production side was severely handicapped by lack of foreign exchange to cover requisite transport, raw material, spares, agricultural supplies and replacement inputs, while its payoff was also limited because of the impact of global recession on primary export prices and regional markets' ability to pay for manufactured goods.

1982 - A Thing of Shreds and Patches

1982 saw rapid further retrenchment in real basic and defense recurrent expenditure, in wages and salaries (no increases in the face of 25-30% cost of living increases), in real imports (which became an exercise in desperate juggling) and in new capacity creating investment - all of which continued through 1983. However, with declines in real import capacity and continued erosion of the revenue base and the financial position of export marketing and transport corporations, this merely averted instant collapse. Real GDP fell by about 2% in 1981 and 3% in 1982 (the first falls since Independence with the possible exception of 1979), and ability to plan ahead was sapped by the day to day demands of the very crises which made it essential.

External negotiations marked time - partly because Tanzanian formulations remained relatively imperfect, partly because the Structural Adjustment Programme produced by an independent Tanzania Advisory Group remained remarkably unarticulated²⁰ (and remarkably inadequate at regaining budgetary balance), and partly because bilateral donors waited on the Bank and Fund (who were not in fact agreed on some

key issues). Equally basic, nobody (in Tanzania or elsewhere) could envisage a viable solution not involving substantial (\$300-500 million a year for three years) added import capacity and medium term real export level increases, nor any practicable approach to achieving the first increase (or without it the second).

IV. National Micro-Economic Policies

Fiscal Prudence and Frustration

Fiscal policy was conservative in intent. Recurrent budget breakeven in poor and surplus in good years was sought until 1980 (and until 1979/80 was achieved) and a ceiling on bank borrowing for the capital budget (on balance, though not annually, achieved over 1972/78) was set. Taxation included relatively high and progressive income taxes which yielded 30% of revenue in the early 1980s. As taxes in foreign trade declined (to 10-15% in early 1980s) sales tax in domestic manufactures became dominant (13.5% in 1972/73 and 35-40% in early 1980s). This pattern worked well so long as manufacturing was not constrained by raw material and spares import strangulation. In 1974/76 substantial rate increases and modest quantitative growth made ex-post sales tax revenue buoyant. It proved disastrous over 1979/82, when the volume of manufactures fell by more than 40%, wiping out most of the nominal and more than all the real rate and price increases in sales tax revenue.

Total annual recurrent expenditure has been relatively constant at about 20% of GDP since the end of the 1960s; it may have increased slightly in 1981/82 and 1982/83 when increases in parastatal reconstruction finance, to repay past deficits initially covered by bank borrowing as well as phasing out continuing losses, offset defense and basic cuts in services²¹. Capital expenditure rose fairly steadily from 7.5% of GDP at the end of the 1960s to 15% at the end of the 1970s but has since been cut to 10% of GDP. Bank borrowing varied sharply as a share of financing requirement - 38% 1969/70, 1% 1972/73, 28% 1975/76, negative in 1976/77, 19% 1977/78 (all capital budget related) but rising to over 40% on a sustained basis from 1978/79.

Credit Budgeting and Fiscal Weakness

Bank credit allocations by major enterprise (or enterprise group) was begun in 1970/72 and intensified over 1974/76. It more or less lapsed over 1976/79 prior to severe reintroduction over 1979/82. It was based on estimates of output, cash flow and prices partly disaggregated to

enterprise level; but it was relatively weak for agricultural marketing bodies because their borrowings were sharply influenced by harvest volumes which forced less precise limits and allowed passing off of losses as increases in stocks.

While government bank borrowing targets were not always held, they influenced actual spending; and until the war undershooting was almost as common as overshooting. Since then both the delay in bringing military spending and agricultural marketing losses down and the collapse of revenue have meant consistent overshooting of up to 50%.

Agricultural Policy - The Weaknesses of External Technocracy

Agricultural pricing and management was relatively weak until 1975 but price coordination had maintained plausible relative prices. Over 1974/75 sharp increases were made in grain prices to protect peasant incomes and provide incentives. Similarly, taking one year with another, marketing authorities had net surpluses. Over 1975-81 price setting, parastatal supervision and related areas were delegated to what was de facto an autonomous, expatriate staffed parallel bureaucracy - the Marketing Development Bureau.²² The results were damaging in respect to relative prices (which severely reduced cashew nut production and led to unmanageable coarse grain and cassava surpluses). More particularly, deterioration of marketing parastatal (except coffee) performance included failure to pay on time, collapse of accounting systems and in some cases of physical control and large, unknown deficits (\$200-250 million or 8% of GDP in the staple food case). These were exacerbated by the failure to achieve an inter-year storage policy so that 600,000 tonnes of 1976-78 surpluses were spoilt, deteriorated into poultry feed or dumped abroad and were thus unavailable to meet 1979-82 maize import demand. Relative prices were restored to some semblance of order over 1980-82 for all officially marketed crops taken together, but less so for exports relative to domestic food crops when they stood above 1972/73 in real terms. But collapse in the terms of trade and the overvaluation of the shilling resulting from rapid 1980-82 inflation²³ left export crop production incentives far lower than optimal and created a Treasury subsidy burden of up to 15% of recurrent

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revenue to cover marketing authority losses. Restoring order to parastatal physical and financial systems and creating a workable storage system had barely begun by the end of 1982.²⁴

Incomes, Equity and The Shrinking Pie

Incomes policy centred on grower prices (raised about in line with the COL over 1974-82 but not uniformly for all crops), wages (which fell perhaps 40% in real terms over 1973-82) and salaries (which fell by about two thirds in real terms over 1973-82). In 1969, 1972 and 1974 minimum wage increases to offset cost of living increases were made while in the last year all wages and salaries were raised statutorily - tapering from 42% at the bottom to 6% at the top. A minor minimum wage increase in 1975 was followed by a long gap to 1980 and 1981 when there were 25% increases (broadly offsetting those years' COL rises) with a partial repeat of the 1974 exercise in 1981 including 15-25% wage and salary increases. In 1982 no increases were seen as practicable despite an anticipated 30% plus COL increase.

The results of the incomes policy have included reduced intra urban and urban rural inequality.²⁵ However, since 1978 this has been within an "all boats sink lower" context of allocating sacrifices to 'spare the weakest, not of dividing increases.

Price Management Under Pressure

Price management as noted earlier, has been on an "efficient operating cost plus" basis at major product and firm level. The Prices Commission has taken a highly sceptical view of asserted costs, especially in distribution, but have granted increases they believed adequate to sustain profits of efficient enterprises on an annual or semi annual basis. Over 1973-78 it did hold the inflation of domestic manufacturing and distribution costs below the average COL increase and did not result in massive 'parallel marketing' or enterprise losses (the latter not entirely surprisingly as investible surplus was one of the targets the Price Commission was bound to seek to increase). Since 1979 cost push

inflation from falls in capacity utilisation and similarly caused physical shortages have radically reduced the Commission's ability to ascertain realistic cost projections (with resultant falls in enterprise surpluses), to hold down price increases or to avert widespread 'parallel marketing'.

Fuel Pricing and Production

Fuel policy has involved petroleum pricing - taxation - allocation, alternative commercial fuel development and afforestation/woodlot programmes. Fuel prices (petroleum products and electricity) rose about 360% and petroleum products alone about 425% from 1972 to mid-1981 compared to about 300% for the overall cost of living. From late 1981 on premium gasoline prices have exceed \$1 per litre with gas oil and kerosene at \$0.40 to 0.45.

All direct import cost increases were passed on to users. There were at no point any fuel subsidies and both the petroleum refining/distributing companies and the national electric power company showed rising pre-tax profits in real as well as nominal terms through 1981 despite a volume decline in the case of petroleum products.²⁶

Similarly, government surplus from petroleum (here defined as taxation on products plus the profits of the state importing/wholesaling firm substituted for the majors in 1976) rose by 350% (slightly above the COL index) although it declined somewhat as a share of final price and fell from about 75% of petroleum import cost in 1972 to under 45% in 1981. Within this total taxes (the only source in 1972) fell to less than TPDC's pre-tax profits or from 75% to 20% of import cost and declined in real terms.²⁷ Petroleum pricing policy was designed to: avoid subsidisation and enterprise losses; ensure an adequate TPDC cash flow; and limit increases in the cost of rural transport and of low income group lighting.

As a result tax increases were limited after 1974 and the relative prices of kerosene and gasoil were lowered (i.e. they rose less) compared to gasoline.

From 1981 physical allocation by region and to key users was instituted with rather uneven but fairly visible effect. Gasoline rationing in Dar es Salaam - while possibly useful as a demonstrable burden imposed on the elite like the 1974 limitation on Sunday driving - had limited impact on volume or distribution of users. By late 1983 petrol and gas oil shortages were endemic especially in the Lake regions.

Hydroelectric capacity was increased substantially over 1972-81 allowing elimination of thermal plant on the national grid. In 1980 extension of the grid was begun (with a tentative 1986 completion date) to allow substitution for thermal plant at the main southern and lake towns. Exploration for oil from 1969 on has yet to discover any although major programmes are in hand. It has discovered gas which should by the late 1980s add 40% to 1982 export value through manufacture of urea and ammonia. Coal development has to date made little progress and - except for small or isolated processing plants - is probably less economic than hydro or gas development.

The dominant fuel household use and tobacco curing fuel is wood. There is little tradeoff with oil but an urgent need to develop more secure and accessible supplies, to reduce the inordinate share of women's and girls' time spent "wooding", to halt desertification in certain districts and to avert the collapse of the rapaciously wood intensive tobacco sector. Since the mid-1970s the forestry division has - apparently with increasing success - placed major emphasis on tree planting both for ecological purposes and (especially in the case of village woodlots) for direct household fuel supply.²⁸ However, replanting is still not equivalent to cutting particularly in tobacco growing areas and near major cities.

V. Impact of International and Policy Changes

Price Changes: Importation and Accommodation

Until mid-1979 price changes were largely in response to global price changes both in extent and timing. Because Tanzanian imports were intensive in grain at the time its price exploded and petroleum use could not readily be compressed except by multiplied output reductions, the overall increase was slightly more rapid than average and more concentrated in 1974-75.

Domestic policy was relatively accommodationist - i.e. real grower prices and real minimum wages were substantially, though not fully in the latter case or uniformly in the former, protected. However, in respect to manufactured goods, distributive margins, public utilities and salaries price increases were deliberately held below the average COL or import price increase.

Since 1979 the impact has been different. The initial inflationary impact came from war costs - recurrent budget deficits and disruption of transport. Its continuation relates to the cumulative impact of importing industrial recession as cost push (and revenue base erosion) inflation. A 50% fall in the terms of trade over 1977-82 led to a 40-45% 1977-81 decline in earned import capacity, despite a (small) export volume increase. There was a further 30% fall in 1982 as transport, processing and input bottlenecks more than wiped out export production promotion efforts.

Balance of Payments - A Receding Historic Memory

Over 1974-77 balance of payments management was responsive to and able to manage very large swings in the trade deficit. In part this related to their being substantially reversed (in real terms) by 1977. An additional factor was the 1974-75 availability of substantial IMF low conditionality resources to bridge the gap before other aid commitments (in practice basically offsetting the rapid decline in Chinese

transfers) became effective. But equally critical was the possibility of cutting consumer goods and maintenance imports sharply with little immediate impact on production.

1978 per contra was a rake's progress. Imports (especially of consumer goods) were substantially liberalised in 1977 precisely as the terms of trade turned sour. An imprudently high projected use of reserves was exceeded and corrective action delayed. The war with Uganda thus caught Tanzania with a precarious and rapidly deteriorating reserve position.²⁹

Over 1979-82 the combined impact of external shocks - war, sluggish and relatively tightly tied real resource transfers, drought and falling terms of trade - would have made balance of payments management very difficult even under 1973 conditions. In fact the starting point was much worse: neither owned reserves nor low conditionality IMF facilities were available to buy time. The deferred maintenance backlog, which had only partially been cleared, made spares and related imports cuts much more damaging to production. There were few consumer goods left to cut. The unselective use of supplier credit in 1979-81, to sustain investment related imports for low priority projects, heavily mortgaged 1981 and subsequent export earnings. By late 1982, to speak of a balance of payments was a misnomer and foreign exchange allocation in practice was collapsing into ad hoc juggling to cover particular shipments on a day to day basis.

Exchange Rate Adjustment: From Responsiveness to Deadlock

Tanzania has not viewed the exchange rate as a major positive tool for causing desired results. Until 1979, however, it viewed exchange rate changes (several small devaluations and one mini revaluation) as a necessary minor part of adjusting to changed global price relationships (e.g. to avoid absolute decreases in grower prices).

From 1979 on a proto-policy of small, frequent adjustments (25% in 5 half yearly changes was canvassed in 1979 and 40% in 5 or 6 in 1981-82)³⁰ was blocked by two factors. First, it was argued that it would complicate inflation control and - perhaps - protection of low income groups. Second, and more critical, it collided head on with IMF

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advice for 'jumbo' devaluations (25-30% canvassed in 1979 and 60-70% in 1981-82) which made the mini-adjustment strategy seem useless in gaining an agreed IMF programme and aroused an equally fundamentalist response on the part of some Tanzanian leaders of opposing any devaluation at all.

As a result the only exchange rate change from mid-1979 through the end of 1982 was a 13% adjustment (devaluation) in March 1982 which really only corrected the 1980-81 accidental revaluation flowing from a dollar dominated currency basket adopted in 1979 (and not changed until 1982). Even that was delayed nine months because of the domestic reaction to the IMF's stance which led to a deadlock on negotiating a programme throughout 1981 and 1982. Over 1982-83 the increase in overvaluation's impact on the Budget (via subsidies to export crop authorities) and the need to achieve a credible position for negotiating with sources of external finance, resulted in an increasingly firm and clear commitment to phased devaluation beginning with 20% in June 1983.

If one accepts the World Bank's view that there was limited overvaluation in 1980³¹ - and by implication very little in 1979 - then one arrives at a plausible range of rates for mid 1983 of 16 to 22 shillings to the dollar versus an actual of 12.4. It is believed that Tanzanian strategy is to move by several steps to a point within this range by the end of 1984, and to adjust in small steps subsequently on the basis of relative inflation rates.

Economic Growth: Recovery and Collapse

The initial impact of the 1974 Emergency Programme - and more importantly of the 1973-74 drought - was to cause GDP growth to decline to about 2% (and agricultural output to fall 2%) in 1974. Thereafter, growth rapidly recovered to almost 6% in 1977 (with agricultural growth over the 1975-78 period also averaging about 6%). GDP stagnated or fell in 1979, recovered in 1980, and fell throughout 1981-83. Real agricultural output declined from 1980 onward. This was largely weather related, but was exacerbated by input and transport shortages caused by import constraints.³²

The pattern is fairly typical of sub-Saharan African economies - a manageable crisis in 1974-75 and a larger, unmanageable one beginning in 1979. The onset of the crisis (and the 1980 declines in manufacturing output and in crop production) are explicable in terms of unwise use of reserves in 1978, war in 1978-79 and drought from 1979. Its continuation and unmanageability stem primarily from sustained importation of industrial economy recession, which prevented growth of exports and therefore import capacity. By 1983/84 the situation had deteriorated so badly that OECD recovery, even if including a beverage price boom, could no longer be expected to turn the situation around. Outside agriculture (and in part even there) the basic problem was not one of available capacity, nor even of technical and managerial personnel to utilise it, but of the 20-25% direct import component needed to operate and maintain it.

Development Pattern Impact - Adjustment or Distortion?

Because 1974-76 was seen as a stochastic shock - albeit with some permanent price shifts in favour of oil, grain and manufactures - its impact was to reinforce rather than reverse sectoral priorities. Integration of the industrial sector³³ and self-sufficiency in grain were seen as demonstrably correct - as was increased emphasis on hydrocarbon exploration. While, in principle, more emphasis was to be placed on export expansion (especially by pre-export processing and buildup of selected manufactured goods sales in regional markets) this was de facto largely deferred over 1974-76 and lost sight of over 1977-78, when the external account position seemed less worrisome and there was a relaxation from tight macro management of 1974-76. Substantial export processing capacity was created but inadequately supplied, managed and marketed.

The 1979-82 crisis appears to be having a more complex result. This is partly because it is perceived as semi-permanent and partly because (short of finding liquid hydrocarbons) no set of sectoral balance changes appears both practicable and adequate.

Increased relative resource allocations have been made to agriculture and supporting services, the only sector to show a volume increase in

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imports over 1979/80-1982/83, and to projects/inputs directly relevant to boosting exports and/or saving actual current imports. However, reallocation is crippled by rapidly falling total import capacity - a higher share of a shrinking cake has often meant an absolute decline. In respect of energy (hydroelectric generation and transmission, hydrocarbon exploration and gas based export development) and part of forestry (pulp and paper mill, wood supply) the reallocation of imports to date appears just adequate to allow progress toward higher production and exports. Elsewhere it seems to have crippled industry, health, water and education without being adequate to restore agricultural or primary export growth.

Morale, Morality, Political Viability

Morale was shaken in 1975 but the 1974 programme was broadly accepted as a bold and necessary response to external crisis, and as equitable in allocation of burdens. Over 1976-78 morale recovered sharply as success became apparent (admittedly apparent not real in 1978). Over 1979 it was sustained because the liberation of Uganda produced a temporary euphoria. Recollection of 1974-76 sustained morale in 1980 but it has manifestly deteriorated as the record of unsuccess has lengthened. There is for the first time substantial doubt as to the government's ability to cope, hardly surprising with national command over resources per capita one third down on 1978.

Morality also suffered over 1975-76, partially recovered over 1977-78 and has worsened radically over 1979-82. However, this is in relative terms and a particular context. Very few major decisions or contracts are influenced by bribery. Both private and public corruption and profiteering are both rhetorically and actually seen as evil and as exceptions; they are attacked to some effect, albeit somewhat frenetically and episodically. "Parallel marketing" is tolerated where need based (e.g. the peasant paddy crop and minor overcharges at retail) but deeply hated in cases of full scale 'entrepreneurs of adversity'. The pressure that the upward trend of scarcities and the downward trend of wage, salary and small business real incomes put on future evolution of morality is alarming.

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Tanzania's Government still seems to have a broad base of support (in the sense of popular acceptance of its objectives). This is consistent with a decline in morale for two reasons. First no potential alternative ruling coalition exists. There are vocal pro-capitalist left-wing critics but they lack the necessary institutional and sub-class bases to be credible alternatives. Second, the experience of Tanzania's neighbours with widely varied capitalist strategies - and in Mozambique a socialist strategy distinctly less pro-rural and open than Tanzania's - strongly suggests to the leadership and to many workers, peasants and even officials and managers that domestic strategy mistakes cannot be the basic cause of the crisis.

This similarity in basic problems, given the disparity in political economic strategies and division of costs, suggests to many Tanzanians that the basic causes of the economic crises are indeed external and therefore not in themselves strong reasons for querying official goals and strategies or even seeking a wholesale change in leadership (of which there has been a fairly high turnover through normal elections and appointment procedures). Predicting the effect of the continuing crisis in this respect is risky. Acceptance of sincerity without success is presumably not infinite - Tanzanians expect results from the state. On the other hand unless a credible alternative strategy and political coalition emerge criticism is likely - as at present - to be of failures and alterations of degree and emphasis within, rather than alternatives to, the present political economic paradigm of the state and Party.

VI. Outlook and General Reflections

Through a Glass Grimly

It is extremely difficult to make any reasoned projections for the Tanzanian economy. Any which offer a prospect of stabilisation and recovery require one or more highly optimistic assumptions about import capacity. Any which take present (and reasonably projectable) earned import capacity and resource transfers point to continued decline. At some not terribly distant point this would result in a collapse into

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Ghanaian or Zairois conditions which are not really comparable to - or analysable in the same terms and categories of - normally (even if badly functioning) economies.

Prospects for existing exports are bleak. Quota limits in the case of coffee, and demand and cartel limits in the case of sisal and twine, preclude major gains in earned import capacity. Tobacco faces a fuel threat to viability and poor price prospects. Cotton also faces ecological barriers to even sustained output as do cloves. The diamond mine is nearing exhaustion. Rebuilding cashew picking/collection (and in the medium term replanting) requires uncertain quantities of time, of disease control and of transport rehabilitation; restoring real price levels to growers has at best stemmed further declines. No major terms of trade recovery can be expected.³⁴ Greater efficiency in allocation of resources to support export production and marketing and to clear bottlenecks might raise earned import capacity 2-4% a year over 1983-90 (barely offsetting the rise in debt service).

New exports in sight for the late 1980s - paper and ammonia/urea - should raise total exports by 30-45% but over their first decade will have very substantial capital repayment obligations. They might allow a modest import growth were present levels adequate (as opposed to 20-30% below minimum for efficient operation), arrears negligible (vs \$500 million) and the export cover of imports 75% (vs 50%). As it is they are a necessary part of any answer, but far from the whole of it.

Major aid increases are unlikely - partly because overall ODA in real terms simply will not grow rapidly over 1983-90. Reallocation of 75% (versus about 30% now) of ODA to maintenance and capacity utilisation support might provide a basis for stabilisation, by allowing import shifts to spares and intermediate goods, with recovery in the late 1980s as the new exports came on stream.

However, such transfers seem dependent on a Tanzania/IMF Agreement (also necessary if arrears are to be reduced this side of 1990). The main obstacle is the Tanzania government's belief (backed by at least two independent analyses) that a 60-70% one off devaluation and 50% interest rates - as proposed by the IMF - would catapult inflation from the 25%

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to 30% range to over 100%, make subsequent reduction almost impossible and greatly weaken economic management capability by diversion of attention and increase in uncertainty. Per contra Fund Missions have viewed Tanzania's approach of gradual devaluation as not worth negotiating about. As a result neither approach is acted on and others delay their decisions while real economic decline and capacity erosion continue.³⁵ Had no proposals for maxi devaluations been made by the IMF, the actual exchange rate would probably have depreciated by more than it did in 1981, 1982 and 1983.

Tanzania in Perspective - Some Tentative Generalisations

The impact of imported inflation on Third World and fringe industrial economies over 1970-82 has varied significantly as have the constraints on their responses. To generalise from Tanzania to the Republic of Korea or to Kuwait would be otiose. However, several elements of Tanzania's experience do seem relevant to the low income, economically small countries with exports dominated by primary products and lacking assured domestic fuel and/or basic food supplies - e.g. Malawi and Sri Lanka within this study and to a majority of Sub-Saharan African and Least Developed economies.

These economies exhibit a variant of the Giffen (inferior) good paradox. When the real prices of their exports decline they are unable to switch resources to alternative exports. Beyond a finite point they cannot reduce real imports without economic collapse. As a result they are virtually forced to ignore market price signals and normal allocational efficiency criteria and seek to raise exports of precisely those products for which the world market prices signal relatively less production. If a significant number of countries succeed in raising physical exports, the ensuing acceleration of real price erosion actually reduces their collective real export earnings and those of most individual countries. This certainly has been the 1976-81 record in coffee, with value stabilisation and recovery achieved in 1982-83 because ICA quotas reduced exports.

Industrial economy deflation can be - and is - imported as cost/push and 'parallel market' inflation. This is true because industrial economy

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deflation and stagnation results in low growth of global trade in primary products and in worsening terms of trade. Resulting declines in real import capacity force cuts in capacity utilisation, infrastructure maintenance (e.g. transport, water, power) and in agricultural sector inputs (e.g. fertiliser, pesticides, implements). All tend to raise unit costs (often dramatically) and to create acute physical shortages, making profiteering and 'parallel marketing' (whether technically illegal or not) inevitable. In the case of Tanzania, imported inflation resulting from the export of depression by industrial economies over 1979-82 has apparently (if not readily quantifiably) been more sustained and intense than imported inflation of the more standard type over 1973-75, partly because the period of importing depression has been substantially longer.

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At present, use of short term commercial credit (including unselective acceptance of supplier/export credit and commercial arrears), especially at high interest rates, is analogous - for these economies - to the use of heroin to cure depression, a quick fix at the price of worsening the underlying problem. While bolstering import capacity for two or three years, it reduces medium term import capacity unless: terms of trade recover, sustained rapid quantitative growth of exports despite declining real unit value is possible or commercial short term borrowing can not only be rolled over but rolled up to cover repayment of principal and interest and a steadily rising net inflow. None of these is very plausible and when the merry-go-round stops the impasse is worse than if the import cuts had been made sooner.

Structural changes toward greater national economic integration produces paradoxical results unless real earned import capacity can, at the least, be sustained. The initial impact of such change is to increase import requirements absolutely (e.g. in plant and machinery) and to shift them from final consumer to intermediate and capital goods. If successful in raising output and increasing intersectoral linkages (as Tanzanian industrial policy was through 1978) this too raises absolute import requirements because the volume growth more than offsets the decline in import content per unit for many years. If a prolonged fall in real export earnings comes while such a process of structural change is in its early stages the results are traumatic. Very few imports can

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be sacrificed without an impact on domestic production - a situation unlike that of a pure 'plantation' economy basically importing final consumer goods. But because of remaining production gaps it is not possible, in general, to reallocate domestic resources to substitute for intermediate goods imports. The resultant cost of import cuts is a multiplier negative impact on domestic value added (over 3 in Tanzanian manufacturing) and on domestic goods availability (up to 10 at retail prices in respect to manufactured goods in Tanzania i.e. 3 value added in manufacturing, 2 to 6 indirect and profits tax, 2 to 3 in transport and distribution costs and margins). The impact is thus more acute in respect both to output and inflation if substantial, but incomplete, initial steps toward national integration have been taken prior to an import capacity collapse than for either a flexible industrial or semi industrial economy or a pure 'plantation' economy. A substantially integrated economy has some immunity to trade shocks while in a 'plantation' economy there is no multiplier impact of import cuts on domestic production.

External imbalance gap closing by standard methods appears impracticable within the national structure constraints and the present world economic outlook. The crisis has undermined the possibility of export growth (e.g. Malawi), resulted in massive growth in output and investment being paralleled by real per capita consumption falls as well as worsening external gaps and inflation (e.g. Sri Lanka)³⁶ and/or blocked continuation of systematic reduction of import dependence (e.g. Tanzania). The World Bank prescription³⁷ of temporary reversion toward a 'plantation economy' (i.e. primary export growth led recovery) and sharp increases in real concessionary transfers appears technically and politically unattainable (quite apart from any judgement on its desirability).³⁸ The UNCTAD Integrated Commodities Programme increasingly appears to be neither integrated, an operational programme nor of much use to commodity producers or commodity export dependent economies.

Domestic inefficiency compounds the impact of external shocks but is also a nearly inevitable consequence of such shocks. Both markets and analytically based allocation management work less well under conditions of rapid change and substantial uncertainty. The sudden escalation of

day to day crisis management requirements reduces - for the private enterprise and peasant as well as for the public sector - the ability not simply to undertake medium term strategic planning but even to stand back to see what immediate allocational and semi-structural changes would increase the efficiency with which existing (reduced) resources were applied.³⁹ There is a built in tendency to seek to do a little less of everything in about the same way, no matter how inappropriate (vide Malawian plantation concentration, Sri Lankan fixation with large scale capital and energy intensive water works, Tanzania's 1970-81 deferral of developing an export strategy to sustain - as opposed to an import control strategy to reduce - basic import requirements).

Domestic political constraints vary widely but are never absent. In Tanzania, policies overtly causing major reductions in minimum wages and real peasant incomes cannot be adopted by the present leadership because of its base, its commitments and its psychology.

FOOTNOTES

1. Professor Green has served frequently as advisor to Tanzania since 1964 while Mr. Kamari is Director of Economic Research and Policy at the Bank of Tanzania. Both wish to stress that the analysis and conclusions of this study are their personal responsibility and are not necessarily those of the Tanzanian authorities and that Professor Green alone prepared and is responsible for the final text.
2. Basic data can be found in the Statistical Annexes to World Bank 1981, 1982, 1983 and in Tanzania Economic Surveys.
3. Adapted from Bank of Tanzania Annual Reports supplemented by Trade Statistics detailed printouts.
4. See table , in introduction to this volume for global data, Bank of Tanzania Annual Reports for Tanzania.
5. The Tanzania National COL Index is computed from prices of sample purchases of items in the index (not officially set prices). This method would slightly overstate prices, in comparison to those paid by a real shopper using his own money, but the relative underweighting of rural areas would have the reverse impact. The IMF - on no stated reasoning - asserts the COL Index understates price increases ILO, 1982 after detailed examination suggested that it overstated.
6. Agricultural quantity data are weak. The estimates for marketed share of food are based on a formula assuming 5% - vs 13-15% actual - urban population and no rural food sales. About 35% of households have basically non-agricultural incomes and on balance use somewhat higher proportions of high value foods while peasants do, in fact, buy some food. A 50-50 division between subsistence (household self provisioning) and marketed food is a plausible working hypothesis.
7. Unpublished national accounts working data and unofficial estimates from Treasury enterprise data. See also Economic Surveys.
8. See Bienefeld, Coulson, Green in Fransman, 1981.
9. See ILO, 1982 and 1977.
10. See Green, Rwegesira, Van Arkadie, 1981 for a fuller explanation of the reasons for this strategic gap.
11. Preliminary 1982 and first half of 1983 data from Bank of Tanzania.
12. Economic Survey data supplemented by Bank of Tanzania detailed foreign exchange allocation and use records.
13. A new national series is being constructed by the Bank of Tanzania. The 35% 1972-76 fall is an UNCTAD estimate. The 50% 1977-81 fall

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- is a semi-official Treasury one based on rough estimation from actual prices received and paid for main products traded. It corresponds roughly to Uganda estimates. The much lower falls shown by World Bank and UNCTAD series are based on industrial economy import and export prices used as proxies but these seem to understate how rapidly prices actually paid by Tanzania have risen and overstate actual growth of unit receipts on exports.
14. Most 1973 aid was from China so that OECD aid shows a much more positive trend.
 15. For a fuller account and detailed sources, see Green, Rwegasira, Van Arkadie, op. cit..
 16. Ibid.
 17. See Payer, 1983. Why Tanzania agreed is less clear as it was not then using either an IMF facility or a Bank programme loan.
 18. See Green, Rwegasira, Van Arkadie, op.cit..
 19. See 1981 Budget Speech of Minister for Finance.
 20. Based on Interim Report of TAG and 1982 Tanzania Structural Adjustment Programme "Bluebook" and implementation checklist.
 21. Data from Bank of Tanzania, 20 Year Economic Survey 1961-81, in press.
 22. For a fuller account see Payer 1983. There was very little political pressure on MDB as to specific prices - indeed almost all of its proposals were rubberstamped until 1981 and the changes then were to higher average consumer prices for grain and producer prices for cashew nuts.
 23. From 1980 on Tanzania's inflation rate (in COL terms) has been above the African average or that for developing countries as a whole albeit far from being in the top tier in either context.
 24. Over 1980-82 a step by step clawback of power from MDB took place culminating in a new Minister and a Tanzanian Agricultural Policy Study forming the basis for the 1983 Agricultural Policy Statement.
 25. See ILO, 1977 and 1982 for detailed review and analysis of data.
 26. Largely based on TPDC Annual Reports and unpublished Ministry of Water and Energy and Sales Tax revenue breakdown data.
 27. This was partially reversed over 1982-83 especially for premium gasoline, for both to raise revenue and to deter consumption.
 28. Largely from unpublished national energy survey materials and scattered Forestry Division reports.

29. See Green, Rwegasira, Van Arkadie, op. cit.
30. See Green in Williamson 1983.
31. Bank, 1983, p. 62.
32. 1982 and 1983 Budget Speeches, Economic Surveys.
33. See Bienefeld and Green in Fransman, 1981.
34. See Bank, 1983, pp. 7-13, 30.
35. A result which Williamson points out (Williamson, 1983, p. 652) reflects little credit on the Fund, the Bank or Tanzania.
36. See World Bank, 1982, p. 28.
37. World Bank, 1981.
38. See Amoaka and Please 1983 for a partial admission of this with respect to rapid increases in earnings from primary product exports.
39. E.g. in Tanzania rough calculations of ratios of import allocations to metres of cloth produced, for sub-sectors within textiles shows a tendency to allocate in favour of firms with low ratios (mostly in the private sector). Further analysis by the Ministry of Industries has identified and corrected several more cases. In the absence of crisis management, this analysis would probably have become routinised much earlier.

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