ECONOMIC PROSPECTS 1974/75

(PROPOSED WAGES PRICES AND OTHER ECONOMIC MEASURES)

1. The combination of rapid general price inflation in industrial economies, unilateral quadrupling of oil prices by a producers cartel, and global food shortages at a time when our agricultural development has lagged poses the most serious short term politico-economic and socio-economic management problems we have ever faced in independent Tanzania. Any attempt to be cautious or to avoid radical price and wage change measures will result in popular discontent, loss of investible surpluses, budget deficits, and increases in taxation totally incompatible with a continued transition to socialism. The lavish use of wage and salary increases, however, will lead to uncontrolled price increases with the same end results. The realistic path is certainly a narrow one but also a hard one to identify clearly.

2. It is worth stressing that except for the grain and sugar shortages - which relate partly to failure to implement rural planning and partly to drought - the problem is one of imported cost increases not of a falling or stagnant production here. It is therefore a problem of balance not one of massive cutting back of real consumption. Our export prices have risen fairly significantly since 1971. For example from 1971 to 1973 sisal export prices rose from Shs.830 to Shs.1975 per tonne, coffee from Shs.6400 to Shs.8200, cotton from Shs.4450 to Shs.5550, and cashew kernels from Shs.1250 to Shs.1300. Our external reserve position and domestic fiscal balance (following the 1970-1972 tightening of credit, exchange control, and budget policy) are not unsound. This of course is no cause for complacency - in an economy like ours with imports adding up in 1972 to about Shs.3,000m i.e. over one quarter of total goods of Shs.11,000 million used we cannot isolate ourselves from world price movements. What it is, however, is reason to believe that if we plan and act realistically we can avoid a crisis.

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3. The 1974 Balance of Payments is likely to be Shs.500 million worse than 1973. Petroleum price increases will have a net cost (after exports to Zambia and Burundi and of surplus heavy fuel oil) of Shs.300-350 even if further rises are averted. Grain, sugar and milk price increases combined with higher quantities needed because of drought and rebuilding of stocks run down by late ordering will add another Shs.350 million. Price increases on other imports are unlikely to be less than Shs.250 million. Against this cuts averaging 25% in all consumer goods imports other than grain, milk, sugar and a few other mass consumer goods might save Shs.100-125 million. Thus an import increase of Shs.800-850 million seems inevitable unless we cut back investment severely or lower our factory output by reducing raw material, intermediate goods and spares. Exports (excluding petroleum exports which were netted against gross import cost to reach the net cost cited) may grow by Shs.300 million basically on price improvements partly cancelled by a coffee volume fall. The trade balance will thus worsen by Shs.500-550 million. Improvements on invisible exports (e.g. freight services to Zambia, Burundi, Rwanda, Zaire) cannot trim this deterioration by more than Shs.50 million.

3.a Because of the anticipated deterioration of the terms of trade, Tanzania will be faced with serious problems of balance of payments, this year and next year. In theory there are five ways of dealing with this problem namely:

(a) Reduction in expenditure on imported goods.
Tanzania annual imports in 1973 were abour Shs.3,416 m. of this sum, food, petroleum and capital and intermediate goods imports amount to about Shs.2,684m. The balance of Shs.732 m. can be further reduced by stringent controls by about Shs.100-125 million shillings. Given better climatic conditions and unwavering determination to step up local food production there is considerable room for import substitution over the next 2-3 years of such items as sugar, cooking oil, food crops, maize and rice, cement, soaps and detergent production etc. This shall call for discripline and hard work with revision of producer prices and investment programmes in some cases.

(b) Expansion in exports of goods and services:
To date the basic problem in Tanzania has been limited production in agriculture and industries. While some improvements are possible in agriculture

given good weather and additional price incentives, no dramatic expansion can be expected in the short run. It should be possible, given determination, to develop new crops such as soya beans and oil seeds, or step up production of fishing, chicken and pigs with minimal investment. This could supplement our annual export earnings with little effort. Even greater gains are possible by exporting processed or manufactured forms of our raw materials e.g. sisal twine, cashew kernels, leather, cotton yarn, leather products, cloth, garments. These industries therefore must be among the industrial sector priorities over 1974-80. With serious efforts, Tourist industry can also make positive contribution to the economy.

(c) Decrease in outflows of foreign exchange on other items. Total annual outflow of foreign exchange is estimated at Shs.76 composed of loan repayment including compensation (Shs.25), dividends (Shs.35) Travel and emigration (Shs.16). There is some room for further tightening of the outflows relating to dividends and travel and emigration but total savings would be only marginal relative to needs.

(d) Increase in the capital inflows in the form of official aid and other borrowings etc.

To date Tanzania inflow of such resources is estimated at Shs.880 p.a. (1972/73). Sudden increase in the inflow of such capital is not anticipated as a result of the instability of the world monetary situation unless new resources can be tapped from the oil producing countries. Best estimate indicate that we may be able to retain inflows on same level of 1973 over the next 2-3 years. Another possibility is borrowings from IMF. Total resources which Tanzania can expect from this source

...../4

is estimated at Shs.488 million of which Shs.57 million are in the form of Special Drawing Rights (SDRs) which are freely usable, Shs.90 million in IMF Gold Tranche, (also freely usable), Shs.271 million in the form of IMF credit tranche which can only be used when a country is facing accute budgetary problems. (Use of this provision has to be supervised by World Bank). There is a possible Shs. 70 million which can be made available to Tanzania as soon as arrangements for the establishment of the Oil Crisis Fund by IMF (through contributions from oil producing countries) are finalised.

(e) Running down of foreign exchange: As at 31.3.74 the official reserves of Bank of Tanzania stood at Shs.764. These are fast running down due to the need to build up food stocks and to meet expensive petroleum imports and inflated prices of imports.

3.b Treasury has established a task force to identify immediate, medium and long term measures that must be taken to deal with this situation. This will call for action under the four headings.above and may influence the direction of investment over the next two to three years. Treasury should be authorised in consultation with the President to take such measures as are considered necessary to stabilize the situation in the current economic situation.

4. 1974 as compared to 1973 is likely to see something of the order of Shs.1,150 million in domestic and imported cost increases on goods and services consumed and invested in Tanzania. (See Para 18 and Annex 3 for further details). If these cost increases are not passed on to users they will be no less real in using up domestic resources and foreign exchange. The difference will be that parastatal operating cash flow (Shs.530-600 million in 1973) and recurrent revenue allocation to development (Shs.100 million budgeted in 1973/74) will be swallowed up. That will mean either:-

(a) a 30% cutback in total investment and 50% in public sector investment;

(b) a doubling of sales tax (or tax measures of parallel scope);

c. <u>or</u> a fall into 25-35% a year price increases which would (given our data collection and reporting system) render planning and management impossible as well as creating explosive discontent from wage and salary earners.

Therefore, in general and with the most limited of exceptions as to scope and time, cost increases must be passed on as user price increases.

5. If Shs.1,150 million in price increases are envisaged over 1974 then wages and salaries must be raised. About Shs.475 million of the cost would fall on wage and salary earners, Shs.425 million on other individual consumers, and Shs. 250 million on government consumption and on investment. (See Annex 3 for details). Therefore, wage and salary increases are essential. Because the real purchasing power of senior salary earners has been eroded by 60% since 1961 and by 25% since 1970, it is <u>not</u> plausible to act only on minimum wages. (See Annex 1 for details). Such <u>falls</u> are <u>not</u> "standing still".

6. Very considerable costs will arise from the wage and salary increases proposed (See Annex <u>2</u> and Paras 19-24 for details) and these may require certain limited additional producer price changes. It must not be forgotten that one man's income is another man's cost and one man's buying price is another man's income.

7. The Budget implications of the changes are not impossible although (See Paras 29-32 and Annex 4) they do require significantly greater discipline on the part of Ministries and Regions both in respect of spending and of revenue collection. If such discipline is accepted, implemented, and enforced a budget for 1974/75 with no major revenue tax measures should be possible. <u>Major new spending demands,</u> however, will in fact be <u>demands for new or raised taxes.</u>

8. Certain consequential tax changes necessarily flow from major wage revisions e.g. the level of income subject to a 0 per cent income tax rate needs to be adjusted upward to approximate the new minimum wage.

II

Wages

9. Since 1970 the purchasing power of a senior manager or civil servant (present Shs.2,000-3,500 per month range) has fallen about 25%. Clearly many senior managers and civil servants have not been promoted since 1970 - the high achieved degree of Tanzaniazation has that result as opposed to the situation over 1961-1970 when a promotion every one to three years was normal enough. It can be a matter of pride that the range in real purchasing power after direct and indirect tax within the public sector (a top manager compared with a messenger) has fallen from 55 or 60 to 1 in 1961 to 10 or 12 to 1 today but the rapid real falls in purchasing power by managers and civil servants whose dedication, efficiency, commitment, and integrity are vital under a socialist system is cause for alarm.

10. For minimum wage earners the situation is different in the sense that, even with no change, their 1974 real purchasing power would be about 140% of that in 1961; but they too would have suffered a loss between 1969 and 1974 and a greater one between 1972 and 1974. Therefore, the normal triennial minimum wage review (1969, 1972, normally 1975) needs to be brought forward.

11. Given the very large price increases (hopefully not to be repeated), of which about 90% are imported not local in origin, it would be inappropriate either to engage in elaborate scale adjusting exercises or to leave the private sector outside the scope of the main increases.

12. It is therefore recommended that: in respect of the minimum wage:

a. the Rural Minimum Wage (Agriculture, Rural Construction, Mining, Rural Domestic Employees, Rural Non-Profit Institutions) be raised from Shs.140 to Shs.180 per month;

b. mining enterprises with over 100 employees be shifted from the Rural to the Basic (Urban Minimum Wage;

c. the Basic (Urban) Minimum Wage be raised from Shs.240 to 340 per month.

13. It is further recommended that for all other employees except

(i) expatriates on secondment or with (gross) monthly pay of over Shs.4,000.

(ii) foreign technical assistance agency employees;

(iii) any person who will receive a greater increase in wages or salaries pursuant to Cabinet Paper No. 1 of 1974 (dominantly Grade C Teachers and Rural Medical Aides - the total increase for the teachers approaches Shs.50 million).

(iv) East African Community and Corporation employees above the new minimum wage levels, the following increases be provided:

a. for those in occupations subject to the Rural Minimum Wage Shs.40 or 15% of the present gross monthly wage (salary) whichever is the greater but not more than Shs.300 per month additional;

b. for those in all other occupations Shs.100 or 15% of the gross monthly wage (salary) whichever is the greater but not more than Shs.300 per month additional.

In all about 95% of citizen employees will have an increase.

(After direct tax Shs.300 increase per month will be Shs.150 to 180 net versus Shs.100 - no direct tax - net increase for the urban minimum wage earner, a 5 to 1 maximum difference which is very low even in socialist practice and thus furthers equality of income distribution.)

14. If the proposals of Paras 12 and 13 are agreed it will be necessary to:

a. adjust the implementation of Cabinet Paper No. 1 of 1974:

(i) to bring it into force 1.V.74 not 1.VII.74 if that is agreed for this paper;

(ii) to apply its new wage and salary scales where these result in increases <u>greater</u> than those proposed (primarily Rural Medical Assistants and Grade teachers but also some technical assistants);

(iii) to apply the Shs.100 or 15% proposals of this paper to all other cases in which a new scale equal to or above that now existing was proposed but a lesser increase than 100 or 15%;

(iv) to save the scale reductions (for new entrants only) to harmonize certain comparable jobs usually by accepting the cut but making the new scale 15% above that proposed in line with the general increase;

(v) in the case of newly created grades and scales to adjust the proposed rate so that it maintains the same general relationship to the grades immediately above and below as proposed in the paper.

b. <u>ban</u> all wage or salary increases for one year from the date of these awards except for:

(i) categrories not covered e.g. EAC and Corporations, Technical Assistance Agency foreign personnel;

(ii) increments automatically paid under <u>existing</u> scales;

(iii) promotions.

15. These bans are critical to avoid generating excess costs. As the proposals of Paras 12 and 13 do provide 42% minimum wage boosts over 15% up to Shs.400 a month, and 15% thereafter up to Shs.3,350 a month they do include most of the gains proposed in Cabinet Paper No. 1 of 1974 but also ensure that all employees benefit which would not be true under the Cabinet Paper's proposals and so can be harmonized with them. (See Annex II-D). However, if we are to legislate average wage/salary increases averaging 17% to 20% for firms these must be the only such increases in this year. The firms cannot afford additional 4-10% increases via the Labour Tribunal.

16. Paras 12-13-14, if accepted will require legislation over which Labour, Treasury, and A.G.'s should liaise.

17. It must be considered whether July 1 is the best date for implementation and the budget speech the best time for announcement. Given the degree of discontent by many wage earners and of loss of morale and dedication by many middle and senior civil servants and managers an earlier announcement and a May 1 implementation are almost certainly preferable. (This would require Supplementary Estimates but these could largely be financed by revenue arising from parallel price changes.

18. For wage and salary earners as a group these wage and salary changes - after allowing for direct taxes and for price increases - should leave a 1974 (1974/75) purchasing power increase of the order of 5-6% over 1973 as opposed to an over 10% decline in the absence of any changes. For the salary earner it would restore the 1972 position and for the minimum wage earner achieve a new high marginally above the July, 1972 position. (See Annexes I and III for details.)

III

Cost Implications

19. For manufacturing wage costs are a low share of total costs and with bouyant sales and better labour productivity

from better morale, the costs should be containable with quite modest and delayed Price Commission approvals for selected price increases.

20. For services the situation is unclear. However, Annex 3's price increases at consumer level include perhaps Shs.225-250 million of gross service margin increases which should largely cover their higher wages. As service margins were inflated over 1969-1972 some squeeze here seems practicable.

21. For construction there will be cost increases which have been - so far as they relate to government - allowed for in Budget projections.

22. For agriculture the price increases are more relevant than the wage increases. In the cases of cotton and maize cash price boosts and subsidized inputs should ensure higher real incomes. For tobacco and coffee high world prices and growth in output (assuming success from the nearly Shs.50 million coffee berry disease control spending) seem likely to boost real incomes. Cashew prices may deserve attention if the Indian nut price for 1974 will allow CATA to raise the grower price 10% without incurring a loss on its trading account.

23. For large scale agriculture the implications vary. Sisal and (to a lesser extent) tea are receiving higher prices and can afford higher wages. Sugar and wheat probably cannot. In that sugar and wheat producer prices are now well below import parity Kilimo might well consider Shs.100 per tonne boosts solely to offset the higher wage costs. Even at the raised prices every added tonne of local (versus imported) sugar or wheat would reduce the pressure on domestic prices.

24. In brief, the wage and salary proposals should not cause major productive sector problems with the probable exceptions of wheat, sugar, and perhaps some service establishments where not seriously affecting overall consumer

costs could offset them. However, as noted below some agricultural prices including maize, wheat, beans may need to be raised to encourage production.

IV

Prices

25. Major price changes should be implemented parallel to the wage changes. As they are already rumoured widely, at levels about those actually under consideration, the reaction taken with the wage boosts (which are not rumoured as impending) should be favourable.

26. Food price changes - other than producer prices - have posed problems of determination in the past. On the basis of its record it appears that if Kilimo specialized in grower prices where it has particular expertise and duties but subsequent manufacturer, wholesaler, retailer prices were analyzed and proposed by the Price Commission, much time would be saved. For critical commodity changes, consultations and where necessary referral to ECC should remain. However, the present system of innumerable interministerial conferences before ECC submission on sugar, flour, sembe prices seems clearly technically inferior to, and slower than, using the Price Commission to do the technical study while leaving the political decision on key commodities to the ECC.

27. It is therefore recommended that:

   a. maize, sembe, wheat flour and vegetable oil price increases be implemented parallel to wage and salary increases. Likely increases are of the order of 50% refined cotton seed oil may need to rise from 4/= to 6/= per litre; sembe from 95cents to 1/50 and wheat flour from 1/70 to Shs.2/50.

   b. any other major price increases the Price Commission sees as inevitable (e.g. electricity following oil price changes) be implemented at the same time or soon thereafter;

../10

c. the Price Commission be instructed to give priority to completing the work necessary to set effective goods transport price ceilings;

d. the Price Commission be made responsible for the technical analysis of all manufacturer, wholesaler, retailer food prices but with Kilimo retaining responsibility for grower prices (and informing the Price Commission when grower price changes will necessitate alteration in manufacturer, wholesaler, retailer prices).

28. Annex 5 gives some farm and retail food prices. These suggest that our wheat prices are so low as to hamper increased local production and that for maize they are also too low to encourage production for local sale at least in any area where export smuggling is practicable. (The fertilizer grant makes production more attractive at any price but does not reduce the temptation to smuggle.) To the extent higher farmer prices did lead to substantial increases in grain output they would:

a. reduce Foreign Exchange costs;

b. raise rural incomes;

c. if large enough output gains resulted, reduce average grain costs to NMC.

Therefore, it would appear desireable for Kilimo to review the wheat and maize grower prices with a view to determining whether higher prices would increase production, decrease smuggling and thus reduce import needs and average cost enough to be desireable and whether introduction would be most appropriate for the current long rains harvest or for the 1974/75 short rains crops.

V

Budget Implications

29. Wage and price changes as proposed will raise the cost of the present level of recurrent and capital budget activities by about Shs.320 million. Of this perhaps Shs.250 odd

million would arise in any event from the selective wage and salary increases recommended in Cabinet Paper No.1 of 1974 (but which were unfortunately not costed) and uncontrollable price increases. If one adds Shs.30 million growth in debt service and Shs.50 million added transfer to development to pay for past development borrowings and for a modest growth in programme and Shs.70 million for a 4% real growth in ministerial and Regional Supply Programmes a total of Shs.470 million Recurrent Budget increase in 1974/75 over 1973/74 is reached.

30. Since the price increase elements and part of the wage increases will need to be put into contingency and allocated during the Budget year the implied ceiling for Ministerial and Regional Supply Estimates (other than Contingency and Transfer to Development) is Shs.2,300 million as apposed to Shs.2,031 in the initially voted 1973/74 Estimates (Annex 4 for details) including all Cabinet Paper No.1 increases in emoluments.

31. It is just possible to foresee revenue increases of Shs.462½ million without new taxes or rate changes designed to alter net revenue.

. Indirect taxes should yield Shs.182½ million more (even after the sugar tax reduction) - about half on price rises and half on volume growth; export tax yields should be up Shs.60 million largely on sisal price changes over the past year; direct taxes should yield about Shs.160 million more from natural growth, partly from export price changes leaving authorities and plantations with taxable profits, but largely (even after consequential changes at Paras 33-36 reducing yield) from higher wages and salaries. Of the balance of Shs.57½ million needed, Shs.20 million can be found from miscellaneous Treasury collections and Shs.30 million should be forthcoming from Ministries and Regions. This last figure requires that the serious failure to collect which has led to a sharp fall in Ministerial and

Regional collections below 1971-72 levels be reversed. The Shs.7½ million to be found may be achieved by rigid economies in Estimates or clearly attainable collection procedure tightening.

32. It is therefore recommended that:

a. an initial ceiling of Shs.2,300 million be set for Ministerial and Regional Supply votes other than Contingency and Contribution to Development;

b. subject to this ceiling being held, every effort be made to avoid new or increased taxes affecting consumers and peasant farmers;

c. Regions and Ministries be directed to give priority to collecting the revenues for which they are responsible and warned that their failure to do so can only lead either to Budget cuts or increases in other taxes. Failure to collect money due to the Government is just as irresponsible as improper spending and has the same fiscal effect as fraud.

VI

Consequential Tax Changes

33. The level of income to which a zero rate of tax applies has normally been the minimum wage. Therefore, if the wage and salary proposals are agreed, an increase in this tax free bracket from Shs.240 to Shs.340 a month seems appropriate. G. 340 Certain phasing changes on rates up to perhaps Shs.500 per month will be needed for consistency but no changes in the main per centage rates on income slabs about Shs.500 are envisaged.

34. The present Shs.3,000 a month ceiling on housing uplift creates a technical anomaly in that for with quarters contracts providing gross cash salaries of over Shs.13,500 and under Shs.20,000 a month the marginal rate of tax exceeds 100%. A reduction in t e ceiling to Shs.2,000 a month (Shs.24,000 a year) would remove this.

35. In countries, committed like Tanzania to equalitarianism, such as Sweden and Sri Lanka very high average tax rates have been found to create problems. Sri Lanka has sought to avoid this by having taxes on middle incomes higher than ours but a lower highest marginal rate. Sweden has marginal rates in many ways similar to ours but an about 80% ceiling on total direct taxation as share of income. This appears to allow progressive taxation in the interests of revenue and equity but without loss of incentive for a handful of highly qualified professionals, both citizen and expatriate whose work is critical to our development.

36. It is therefore recommended that:

(a) the income subject to a <u>zero rate</u> of tax be <u>raised</u> from Shs.240 to Shs.340 per month;

(b) the rates from Shs.340 to Shs.400 per month be adjusted slightly downward to produce a smooth pattern;

See par 33

(c) the marginal percentage rates from Shs.400 a month onward be left <u>unaltered</u>;

(d) the maximum housing uplift be reduced to Shs.2,000 per month;

(e) the maximum <u>average</u> rate of direct tax in relation to wage, salary and self employed professional income (including allowances) be set at 75%.

<u>VII</u>

<u>CONCLUSION</u>

37. The changes proposed about are far reaching. They will, if adopted, set the basic framework for annual economic policy for 1974-75. Taken together they should:

a. reverse part of the recent fall in real purchasing power of salary earners;

b. advance minimum wage earner purchasing powe to a new peak;

c. allow price levels which preserve domestic investible surplus;

d. reduce incentives to smuggle goods for resale at higher prices in neighbouring states - a major element in creating shortages;

e. allow a balanced budget without significant new revenue measures if restraint in spending is practised.

In the present chaotic world economic situation that is the very best we can hope to do. It is, in fact, more than some industrial economies with far more resources and expertise than we seem likely to achieve. To propose less would be to hide from reality and invite explosive worker discontent; to seek more would be to mistake the desireable for the attainable.

38. The following steps are recommended:-

a. the wage and salary proposals in Paras 12, 13, 14 and 16;

b. the price proposals in para 27;

c. the budget proposals in para 31;

d. the tax proposals in para 35;

e. Treasury be authorized in consultation with the President to take such measures as are considered necessary to stablize the country's economic situation as recommended in paragraph 3a.

and to choose between July 1 and May 1 for the date of implementation of a, b, and d.

TREASURY.
4/4/1974.

PURCHASING POWER INDEX

ANNEX I

	Year	Wage/Salary	Direct Tax/ Fees	Net Salary	Cost of Living	Purchasing Power (1961=100)	Purchasing Power (1970=100)
A. Higher Salary-Public Sector							
	1961	100	10%	90	90	100	–
	1964	85	15%	72	99	73	–
	1967	80	14%	69	111	62	–
	1970	80	18%	65	122	53	100
	1971	80	21%	63	136	46	87
	1973	80	21%	63	145	43	81
(No change)	1974	80	22%	62	160	39	74
(As proposed)	1974	92	22%	73	160	46	87
B. Minimum Wage						(1961=100)	(1969=100)
	1961	100	10%	90	90	100	–
	1969	180	3%	175	119	147	100
	1972	240	4%	230	136	173	118
	1973	240	3%	233	150	156	106
(No change)	1974	240	–	240	170	141	96
(As proposed)	1974	300	–	300	170	176	120

WAGE AND SALARIES

A. 1972/1973 Wage and Salary Use

	(Shs.000,000) 1972	1973
Consumption	3,000	3,400
NPF, PF, etc.	125	130
NBC, POSB, NIC, etc.	100	100
Own Housing	75	75
Transfers	75	75
Direct Taxes	200	220
TOTAL	3,575	4,000

B. Effect of Proposed Changes

	(Shs.000,000) 1973-Wage, Salary, Allowance Bill	Increase at 1973 Employment Levels
Government	925	175
Public Non-Profit	50	7½
Parastatal/co-op	525	92½
EAC and Corporation	250	15*
Private Agriculture	200	50
Rural Construction	200	50
Other Private	1,850	360
	4,000	750

(* Minimum Wage Only Applies)

C. Government

	1973	Increase
Below Shs.400/month	300	60
Other Wage/Salary	525	75
Pensions/Allowances	100	10
Balance of Cabinet Paper No. 1*	-	45
Added subsidy to Public Non-profit	-	5
	925	195

* Primarily Grade C Teachers and Rural Medical Aides.

CONSUMPTION AND PRICES

A. Total Consumption by Individuals
(Shs.000,000)

	1972	1973
Non-Monetary	2,750	3,000
Monetary	5,030	5,800
	7,780	8,800

B. Monetary Consumption Breakdown

	1972	1973
Wage and Salary Earners	3,000	3,400
Other Individuals (e.g. peasants, Urban self employed)	2,030	2,400
	5,030	5,800

C. Probable Price Increase Impact
(Shs.000,000)

Product	Wage/Salary Earner	Other Individuals	Govt. & Investment	Total
1. Petroleum Direct	50	50	50	150
2. Petroleum Indirect (via electricity, transport, etc.)	75	75	25	175
3. Cereals	85	25	5	115
4. Sugar	90	70	-	160
5. Vegetable Oil/Margarine	20	5	-	25
6. Other food (mild, meat, fish, tinned goods, etc)	35	35	5	75
7. Beer	15	10	-	25
8. Textiles, clothing	35	35	5	75
9. Other	75	120	160	250
Total	475	425	250	1,150

D. Real Wage Increase Effect
(Shs.000,000)

1.	Wage/Salary Increase	770	
2.	Direct Taxes on Added Income	-75	
3.	Price Increase	-475	(550)
4.	Net Gain	220	

(Equal to about 5-6% of 1973 purchases in real terms)

ANNEX 4/1

BUDGET IMPLICATIONS

Expenditure Increases (Shs.000,000)

A. Price/Wage Related	
Direct Wage-Salary - Allowance-Pension	195
Indirect Labour (Construction, etc.)	75
Purchased Goods	50
Subtotal	320
B. Other Increases	
Debt Service/CFS	30
Transfer to Development	50
4% Growth (Real Terms) Regional and Ministerial Supply	70
Subtotal	150
C. Grand Total Increase	470

Implicit 1974/75 Recurrent Budget

	1973/74	1974/75
CFS	356	392
Transfer to Development	100	150
Contingency	125	226
Other Regional, Ministerial Supply	2,031	2,315
	2,613	3,083

Revenue Growth

A. Indirect Taxes		
(i) On Price Changes	95½	
(ii) On Real Growth	95	
(iii) Reduction Tax on Sugar	-8	182½
B. Export Taxes		
(i) On Price Changes	60	
(ii) On Real Growth	5	65

ANNEX 4/2

C. Direct Taxes		
i) On Wage Changes	90	
ii) On normal growth	25	
iii) On export changes	45	160
D. -Other		
i) Treasury Other Taxes, Revenues	20	
ii) Ministeries, Regions (assuming serious collection effort)	30	50
E. To be found		7½
F. Grand Total		462½

Notes:

1. This assumes a budget with no major revenue oriented tax changes.
2. It also assumes a reversal of the severe fall in Ministerial and Regional Revenue collections through neglect which has characterized 1972/73 and 1973/74.
3. Finally it assumes a tight control over 1974/75 supply Estimates and actual spending.
4. Unless assumptions 2 and 3 are enforced, assumption one (no added revenue taxes) cannot be attained.

ANNEX 5

SELECTED FOOD PRICE DATA

A. Ex Farm Prices

		Kenya	Tanzania
Maize (100 kilos)	a.	43.00/49.00	35.00
Wheat (100 kilos)	a.	70.00/90.00	45.00
Cassava (100 kilos)		30.00	25.00
Sugar (Tonne)	b.	1080.00	1080.00
Paddy (100 kilos)	c.	57.00	65.00

Notes: a. Kenya maize, wheat prices vary by grade.

b. Basic price - certain estates have special incentive or subsidy arrangements.

c. Standard quality paddy.

B. Retail Prices (* - subsidized).

	Kenya	Tanzania
Wheat flour (kilo)	1.50/1.65*	1.70*
Sembe (kilo)	1.00*	0.95*
Rice (kilo)	1.65	1.65*
Cassava (kilo)	N.A.	-.90
Sugar (kilo)	2.40*(2.80)	2.00*(3.00)

Notes: a. Breakeven prices for wheat flour may be about Shs.2.50 and for sembe about Shs.1.50 over 1974/75 depending on local production, import levels, import prices. The lower the local share and the higher the import level and prices the higher the breakeven level.

b. Kenya rice price is not subsidized because they are self-sufficient. Whether - in the absence of 30,000 tonne "losses" like those recorded on co-op held NAPB stocks last year - Tanzania is or is not just self sufficient is unclear.

c. The bracketed sugar prices are the new non-subsidized ones about to come into effect.

D. Government Wage/Salary Costs 1974/75

Group		1. Present rates	2. with Utumishi proposals (Paper No. 1)	3. with proposed salary increases	4. with combined Utumishi and General Increase.
Grade C Teachers	a.)	72	120	86	120
Other Below Shs.400/- month	b.)	228	280	274	280
Over Shs.400/- month	c.)	525	535	600	—
Pensions Allowance		100	105	110	110
Total		925	1,040	1,070	1,115

Notes:

a. Utumishi increases extra cost above that of general increase relates basically to 67% increase for 20,000 Grade C teachers from Shs.300/- to Shs.500/- month.

b. In some cases Utumishi and in some the proposed general increase proposals are higher.

c. In virtually all cases the 15% increase overtakes and exceeds the Utumishi proposals as well as covering all civil servants in this group (all have been affected by higher prices as shown in Annex 1.)