IMPORTED INFLATION, GLOBAL PRICE CHANGES AND ECONOMIC CRISIS IN TANZANIA 1970-1982
(Notes Toward An Outline)

Introduction

1. Economic Structure
   . Least Developed 1981 GDP £150/capita
   . Moderate Growth 1971-1981 4.5% (Agriculture 3.5 to 4%)
   . Structurally Open Exports + Imports over 50% GDP 1960's.
   . Structurally Closing(?) To 35% GDP 1980's
   . No Domestic Oil/Substantial Hydro/Wood Fuel

2. Political Economy
   . Public Sector Dominant Large and Medium Scale
     . Performance Uneven
   . Stress on Domestic Economic Integration
   . Expansion Basic Services Access
   . Reduction Income Differentials
   . Managed Market (i.e. not Material Balances) Planning
   . Fiscal Conservatism (high tax variant)
   . No Export Strategy or Policy (Pro or Con)

1967-1972

3. Economic Run-up to 1973/75 Crisis
   . Institution Political Economic Model (as at 2)
   . Strengthening Institutional/Personpower Bases
   . Industrial/Agricultural Performance
   . Export Performance (Moderate Worsening Terms of Trade/Volume Near Stagnation)
   . Crisis Management 1970-72 (Basically To Weak External Cash Flow, Domestic Credit Expansion Policy - Successful)
   . Inflation up from 4-5% late 60's to 10% early 70's (Parallel to World Shifts)

1973-1975: The First Crisis

4. Causal Factors
   . 1973 and 1974 Bad Harvests (Basically Weather/Beginning Altered Weather Cycle)
   . 1972 Grain Price Explosion (And Domestic Real Grain Price Cuts on Fund/Bank Advice)
5. Policy Response

- Rapid - Coordinated
- Passed on New World Price Levels (COL 40% leap 3rd Quarter 74 to 2nd Quarter 75, then back to 8-10% a year).
- Energy policy one of pushing hydro for electricity, fully passing on cost of oil increase, holding oil taxes about constant real terms, altering ratio of product prices in favour of illuminating kerosene, motor diesel and against gasoline
- Strict control domestic credit/foreign exchange
- Maintenance basic services/fixed investment momentum
- Minimum Wage and Grower Price for Basic Food Increases (Order of 50%)
- Interim Grain/Sugar Subsidies Phased Out by November 1974 (paid over to marketing bodies in 1974/75 from recurrent revenue).
- General Tax Increases (Gladstonian Bias i.e. Beer/Cigarettes)
- In Principle Selective Import Substitution/Export Production Development

6. Results

- One Year Low Growth (Then Recovery)
- Turn around Food Production Growth Plus Improved Procurement (Leading Major Surpluses 76-77-78)
- Recurrent Budget Remained In Balance (Just) 74/75 Then Returned to Surplus
- Bank Borrowing 74/75 At Target Of 25% Addition to Bank Deposits Plus "Non Fiscal Inflation" Currency Circulation Increase Then Fell Below
Reduction Real Wage And Especially Salary Incomes/Peasant Income Trend Real Terms Subject Of Debate

Overall 1975-81 Domestic Barter Terms Trade Peasants Up (But Down For Industrial/Export Crops)

Volume Fall In Exports (No Actual Implementation This Aspect of 1974 Programme)

Investment (Especially Industry) Maintained But Increasing Completion Lag

40% Compression Imports/GDP ratio (excluding grain) in "Quantity" Terms

Successful Use IMF (SDRs, Gold And First Credit Tranches, Compensatory and Oil Facilities), IBRD Programme (Import Support) Loan, Bridging Finance. No Commercial Arrears Or Defaults

1976-1978 Recovery And Run-up Second Crisis

7. Performance

5% Plus GDP Growth

1976-77 Beverage Price Boom

1977 Record Recurrent Budget Surplus And Record External Reserves

Record Food Surpluses (Leading to Major Domestic Credit, Inflationary Pressure, Physical Handling, Marketing Board Viability Problems)

Rapid Expansion Industrial Capacity (Relatively Low Direct Import Content) And Output

Import And Remittance Liberalisation (Gradual late 75 - mid 77; Massive on Fund/Bank Advice mid 1977)

8. Underlying Weakness

Assumption (à la McCraken) World Economy Back To 1970-72 Pattern

Masking Of Underlying Structural External Imbalance By Beverage Boom
Unsustainable Import Liberalisation
Recurrent Budget Slide to Looseness (Masked By Beverage Boom Related Windfall Revenue)
Still No Export Strategy Nor Export Growth

1979-1982 Deepening Crises

9. Causal Factors

- Second Petroleum Price Explosion (20% to Over 40% Export Earnings For Oil Imports)
- Bad weather/Bad Procurement/Bad Storage Impact on Grain Import Requirements
- Cost Amin Invasion And Consequences ($700 million)
- Terms Of Trade Collapse (Broad Agreement That To 1977 = 100, 1982 Under 50 - Data Weak and Timing Disagreed)
- Lagged Reversal Import Liberalisation
- Attempt (1979-1980/choked off 1981) To Maintain Investment By Supplier Credits
- Import Constraint On Manufacturing And Therefore Basic Tax Base (Sales Tax On Domestic Manufactures)
- Horrendous Performance Parallel Administration On Agricultural Price, Parastatal Supervision, Crop Target And Related Policy Front
- Collapse Of Recurrent Budget Into Huge Deficit (5% GDP) - Revenue Erosion, Security Bills, Deficits Related to Agricultural Sector

10. Results

- Continuing Recurrent Budget Deficit (Inflationary)
- Export Cover Of Imports Down to 50%. Debt Service Ratio to 20%. Short Term Arrears 75% Annual Exports. In Default Some Debt, e.g. World Bank.
Import Constraint On Production Severe (1979-82 Fall Manufactured Output Of Order 35-40%) With Severe Multiplier Effect

Fuel Price Increases Pass On (But Tax Fall In Real Terms; But Also Sharp Rise in Public And Private Importing - Refining - Distribution Margins) - 25% Fall 78-81 In Use - Physical Shortages - Partial Rationing

Inflation From 8-10% a Year mid 1975 - mid 1978 to 35% 1980/ 30% 1981/30% or More 1982 (Understates But Less Than Might Be Supposed)

Erosion Public Services (Real Expenditure Including Defense/Deficit Cover Declined 1980/81, 1981/82, will do so 1982/83)

Initial Export Emphasis As Priority (1980), Moves to Operational Strategy And Annual Plans (1981, 1982) - Limited Results. Two major projects: Paper and Natural Gas/Amonia/Urea pursued energetically but 1986 initial output and 1990's full impact (combined boost exports over 50%).

Severe Fall Urban Real Incomes (Rural Mixed)

Increasing Febrileness In Policy Implementation/Management And Hesitancy Taking Basic Decisions (Since Any Decision Seemed Likely To Do Harm)

Inadequate Maintenance Of Transport (etc.)

Imminent Economic Collapse Danger By Mid 1982

Selected Policy Areas

11. Energy Policy

Pricing

Allocation

Conservation

Substitution (Hydro/Coal For Oil)

Exploration (Build-up From 1970/Intensive From 1977)

Wood (Basically Parallel Domestic Crisis Not Related To Global Evolution Except In Case Of Tobacco
12. Import Dependence Reduction (Manufacturing)
   . Basic Integrated Industrial Sector Strategy
   . Range Of Products
   . Import Content
   . Performance Level
   . Mismatch Strategy Timing/Crisis Onset Timing

13. Agricultural Policy
   . Relative/Absolute Price Incentives
   . Procurement
   . Storage/Transport
   . Financial Management

14. Price Management
   . Objectives
   . Rural Price/Urban Wage
   . Food (Retail)
   . Energy
   . Domestic Manufactures
   . Exchange Rate
   (Ineffectiveness In Face Major Structural Constraints)

15. Export Strategy
   . Absence 1961-80
   . Price Component
   . Profit Incentive Component (Direct And Indirect)
   . Targetting (Agricultural/Other)
   . Limitations - Policy
   . Limitations - Base Export Mix (1 greyhound, 1 limping hound, 1 cancerous beagle, 4 one legged curs, 1 senile mastiff, i.e. cashew, coffee, tobacco, cotton, pyrethrum, sisal, tea, diamonds)

Forward Perspective
(Must Consider-Not Sure At Moment I Can Draw One Up That Is Possible And Subject To Systematic Presentation-)

Reginald Herbold Green
7-IX-82
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