

## OVERCOMING POVERTY, APPROACHING DISTRIBUTIONAL EQUITY

### From Absolute Poverty Toward Relative Equality

Tanzania's policy commitment to overcoming absolute poverty - or lack of basic material needs (food, water, clothing, shelter, education, medical care, transport, reasonably remunerative self employment or employment) - dates to its founding. Arguably that commitment has evolved and been articulated rather than changing sharply. Certainly 1961-67 saw relatively limited progress toward reduction in absolute poverty - the 1966/67 Economic Survey argued that real rural income per capita had declined since independence,<sup>1</sup> the very real gains in health, water and education had passed by a substantial majority of peasants especially in the poorer districts. This was not a matter of deliberate urban or middle income bias; however, but of failure to change programme design and technical outlook enough to achieve implementation of a very real objective.

Overcoming absolute poverty is not - on the face of it - a very radical aim. Adam Smith, for example, firmly placed it as central to his philosophy for increasing the wealth of nations arguing that no nation could be great or wealthy the majority of whose population are poor and miserable.

However, serious commitment to absolute poverty eradication within decades (as opposed to generations) is a radical political economic choice for six rather different but interrelated reasons:

1. it contradicts the post-Smithian classical, the neo-classical, the Marxian, the monetarist and - less clearly perhaps - the Keynesian economic orthodoxies. In each production - accumulation - growth the central while consumption is either a necessary evil, a tool for

achieving full employment, or a trickle down 'good' to be allowed after high growth and relatively high levels of productive forces have been attained. Serious economic arguments for absolute poverty eradication at global level are very recent flowing from President McNamara's initiative at the World Bank<sup>2</sup> and the ILO's World Employment Programme.<sup>3</sup> These post-date several serious Third World commitments to placing increases in the well being of the poor first eg China, Kerala State in India, Sri Lanka, Taiwan, Singapore and Tanzania.<sup>4</sup>

2. in the context of low initial levels of productive forces absolute poverty eradication as a medium term goal requires achieving substantial increase in per capita output of poor peasants and workers if it is not to hold investment to levels inadequate to sustain the growth needed to raise the whole population out of poverty.
3. in particular - barring special circumstances (eg massive capital inflows - public or private - with relatively low subsequent income flows to external providers which do trigger very high growth rates and rapidly growing wage employment in medium to high productivity sectors) which did not exist in Tanzania - continuing progress toward absolute poverty eradication with a moderate growth rate of productive forces requires ceilings on personal incomes (or at any rate on personal consumption). ie, equity considerations apart, resources adequate to allow a substantial upper middle and upper income group do not exist.
4. further the same moral and social outlook which condemns absolute poverty at least tends to view very substantial income inequality as unjust. This flows not from anti-consumptionism but from the contrast between abject poverty and influence.
5. Therefore, the policies needed to sustain a poverty eradication programme include progressive taxation, a relatively compressed wage and salary structure, limited investment in producing amenity (and especially luxury) goods and services, few consumer amenity goods imports. As the programme gathers momentum these constraints are likely to need

to become tighter not more relaxed.

6. As a result participation by workers and peasants in decision taking and enforcement is essential if the programme is to be kept on course. They are its main beneficiaries whereas upper or middle income group members (including most middle and upper managers, professionals, government officials and political leaders as well as large peasants and private businessmen) could, apparently, in the short run at least, do better under rather different programmes. In addition to participation, mobilisation/education/consciousness raising of the upper and middle income professional, managerial and political sub-classes (on socialist, egalitarian and/or nationalist bases) is needed to sustain morale and commitment. This is a much more complex political requirement than that confronting a state (capitalist or socialist) following a more orthodox development via growth with well rewarded elites and a trickle down approach to poverty eradication. This particular political constraint does not apply in the very high growth cases (eg Singapore) and in those in which an external threat can be used to justify conservative populist/nationalist poverty eradication programmes (eg Taiwan).

This particular set of relationships between overcoming poverty and achieving relative equality of incomes, access to services and participation certainly was not perceived in this way prior to 1967 and probably not prior to 1971.<sup>5</sup> TANU's commitment to reducing inequalities initially had two elements: reducing the very great inequality between foreigners in Tanzania and Tanzanians (especially Tanzanians of African ancestry)<sup>6</sup> and reducing inequality by seeing that the poor became less poor and less excluded from public services.

A fairly early addition was the concept of holding upper incomes - at least

those directly controlled by the state - constant while the poor caught up. In part this did turn on the perceived impossibility of raising government salaries and upper wages rapidly at the same time services were expanded rapidly. By 1965 the rapid increases in urban wages were perceived by the government as highlighting another inequality problem - urban/rural.<sup>7</sup> By the time of Mwongozo in 1971 the need to ensure participation by the poor to back up the poverty eradication policy's counterpart of stagnant (soon to be decreasing) real income for at least public sector salary earners was perceived as, after the 1973 National Assembly protest against income policy in general (nominally against the Income Tax Bill<sup>8</sup>), was the real danger of attempts to reverse or erode the policy.

What TANU considers an acceptable degree of inequality in post-tax personal income is unclear. It has never taken a stand for absolute equality or against incentives including annual increments, promotion to higher scales. Bonus debates have turned not on the morality or appropriateness of bonuses for performance but how they could be related to actual worker improvements in effort/effectiveness and formulated to reduce inequality (eg flat bonus per worker or graduation less than wage and salary peak). Similarly agricultural price debates have always treated incentives as a positive thing and serious arguments for compulsory, low price procurement policies have been notable by their absence (a situation markedly different from the post 1930 USSR or from China<sup>9</sup>). The present pre tax inequality between minimum wage and top managerial salaries in the public sector is about 10:1, while post tax it is 7:1.<sup>10</sup> This is now viewed as moderately too great but more - it would seem - because real purchasing power at minimum wage level is both low and lower than in 1974 because of the 7:1 ratio (very low in world terms) itself.

#### Poverty, Equality and Redistribution

Unlike European social democracy, TANU policy and government practice in respect to overcoming equality has never turned on consumption transfer payments. Indeed,

TANU's<sup>11</sup> - and notably the President's - emphasis on the duty of all able bodied Tanzanians to work (paralleled by a duty on the state to ensure that they have the means for self employment or employment) is in terms which sound more like the European capitalist state conservative or the European socialist state party bureaucrat than like social democrats or liberals. Part of the explanation lies in the simple perception that Tanzania cannot now afford substantial consumption transfer payments. Part, however, seems to stem from a commitment to common effort (quite consistent with poverty eradication and egalitarianism since in that context all gain - except the initially very rich and/or exploiters) and - in some cases - to a belief that work is an integral expression of humanity especially when in a social context.

Redistribution can be divided into three categories:

- a. primary - which increases the power to produce and to be rewarded for production of certain sub-classes (in this case workers and peasants) absolutely, relative to and sometimes at the expense of other sub-classes (in this case capitalists and, in particular, foreign ones);
- b. secondary - which provides increased access to basic public and communal services on a basis whereby the poor (or the rich if it were a negative redistribution as is apparently the case with Harambee secondary and technical schools and was so with some co-op subsidised TAPA secondary schools) receive more services than they pay taxes either because the tax structure is progressive or the inequality in access to services is less than that in pre-tax income or (as in Tanzania) both;
- c. tertiary - which comprises consumption transfers eg unfunded pensions from the state (other than to its own ex-employees), income supplements, food subsidies, famine relief.

Tanzanian public sector resource allocations have concentrated on the first two not the third. The rural (agricultural and broader) investment and recurrent spending (except TRDB credit) is on balance skewed toward redistribution within the

rural sector and certainly from urban to rural. Most of the major social service programmes - primary and adult education, water, health - clearly represent secondary redistribution. As more education and better health do tend to raise productivity, the borderline between these categories is less than clear. Similarly minimum wage, consumer price and grower price policy to the extent it reduces the share of poor worker or peasant income going to other sub-classes/sectors is also a form of primary redistribution.

Tertiary redistribution has had only one substantial element throughout 1961-81 - 'famine' (rural weather disaster) relief. Pensions have been paid by employers not by a redistributed national transfer system. Subsidies on consumer goods have been opposed - the major cases have been transitional (eg sugar and grain in 1974 while price adjustments were made), or the result of incompetence in price setting (eg rice at one point in the 1970's but much more seriously grain from 1977/78 on as a result of NMC's deteriorating physical and financial control). 1980 and 1981 do show substantial maize subsidies and 1981/82 little decline despite a 100% increase in some prices but - unlike Sri Lanka over 1945-77 - food subsidies are not seen either as central to redistribution and poverty eradication or even as desirable.<sup>12</sup>

#### Egalitarianism, Growth, Self Reliance and Socialism

While - especially in Mwongozo<sup>13</sup> - Tanzania policy accepts that progress toward egalitarianism is more basic than maximum growth, there is no acceptance that the two always or even normally conflict. That perception lies behind the emphasis in the Arusha Declaration that the wealth of Tanzania comprises Tanzanians and land and in the Presidents stress on human beings as both the justification of an means to development. Recent empirical evidence bears out this perception - there is no evidence that greater inequality is necessary for, sufficient to achieve, or normally associated with higher growth.<sup>14</sup>

As Tanzania's 1961-78 growth record is above average for a low income (or a

sub-saharan African) economy, it is hard to argue that egalitarianism has retarded growth relative to that under a totally different strategy. What is much less clear is the degree to which particular policies pursued for egalitarian reasons have reduced achieved growth within the actual strategy and the degree to which these losses have been ineffectual or avoidable in terms of progress toward poverty eradication and increased distributional equity.<sup>15</sup> This is a critical question because growth - given the egalitarianism goal - is necessary for its fulfilment; redistribution of existing Tanzanian personal and communal consumption on the basis of absolute quality would (quite apart from incentive or equity consideration) not result in all households being above any reasonable definition of minimum acceptable personal consumption and access to basic public services.

Egalitarianism is integral to self reliance at the household, village and - perhaps - organised labour levels. Unless personal income is adequate to meet basic personal consumption needs, a household is integrally dependent in its relationships to those who provide markets, goods, loans, services. Unless a village is able to meet its basic consumption needs (directly or through sales and purchases, whether primarily on a household or on a mixed household/communal basis) and to provide a substantial volume of communal investment, its relations with outside public and private agencies will be structurally dependent. Probably, the degree of dependence of labour forces vis a vis employers is also greater the lower their incomes. Clearly egalitarianism is not a sufficient condition for self reliance - participation via strong Party branches, Village Councils, Workers Councils etc. is also essential. However, unless the workers and peasant members of these bodies are or are approaching freedom from absolute poverty their power to control them and to act decisively vis a vis managers, professionals and bureaucrats is highly problematic.

In Tanzania socialism is normally defined as including participation and egalitarianism. Therefore, from a Tanzanian perspective overcoming absolute poverty and reducing inequality in personal incomes and in access to public

services are seen as integral components of transition to socialism and progress toward them as critical tests of how that transition is faring. This is a perfectly reasonable definition and one consistent with much of Marx's writings as well as with many of Chairman Mao's. However, it is critical to note that it is not the dominant operational definition of socialism in socialist Europe which has taken a much narrower view of participation and of the meaning of distributional equity.<sup>16</sup> In that respect TANU's post 1967 stance is in many respects more similar to that of Solidarity than to that of the pre-1961 Polish Communist Party. One evident problem with this definition in its simple form is that under conditions of very slowly growing GDP the test of significant (or even positive) progress toward overcoming absolute poverty cannot be passed and that of increased access to (operational) basic public services is problematic even if distributional equity is increasing. Further, under these conditions opportunities for open exploitation and statutorily illegal income generation - the most bitterly resented forms of inequality - increase.

#### Reducing/Removing Severe Poverty

Programmes to reduce poverty have had two foci corresponding to what President Nyerere has described as the citizen's two purses - his personal consuming power and his access to publicly provided services. In the case of villageisation the two strands intertwine - albeit the actual context of government programmes has been service weighted - but other instruments have normally operated on one or the other with a highly progressive (taking services and uses together) fiscal policy linking them.

The major specialized instruments for poverty reduction have been minimum wages, producer prices and improvement of opportunities to produce for sale and expansion of basic health, water and education services. Urban minimum wages were increased 250% in nominal and 100% in real terms over 1961-74 with relatively parallel movement in urban informal sector incomes and most other wages. The problem is that this success has been eroded. 1974 marked the highest

consumption power of the minimum wage and the highest average per capita consumption power for the urban sector. Over 1974-81 the minimum wage was raised absolutely from Sh. 340 to Sh. 600 a month (vs Sh.95 to Sh.340 in the 1961-74 period) but the 76% nominal increase was well below the increase in cost of living.

The minimum wage is only secondarily relevant to peasant households (although up to one fifth of their total income is from wages). Levels of production for own use (crops, livestock, housing, infrastructure to improve crop output, storage or marketing) and of both production and prices of sold production are critical. Here pre-1974 policy tended to concentrate on production oriented inputs (rather uneven geographically, biased against food crops and in the cases of extension and research not self evidently giving value for money) and on transport and marketing facilities (with clearer positive results), agricultural price policy was ad hoc and not very clearly linked either to selective production stimulation or peasant poverty reduction.

Until 1967 peasant real incomes stagnated. To 1974 they increased substantially (partly because of improved rural/urban terms of trade over 1967-70 and again in 1974-75). 1974 was marked by systematic use of grower prices to reduce poverty and achieve selective production increases.<sup>17</sup> This approach fell into chaos over 1975-78 but was revived over 1979-81.

While support for production - especially fertilizer and specialized extension services - were enhanced over 1974-81, the actual effect is in most cases unclear. For coffee it has been crucial, in tobacco and tea it has limited output per farmer losses relating to agronomic factors. Otherwise inputs - except for seed in some cases - are both uneven and overall relatively low.<sup>18</sup> Improved procurement in respect to grains did raise peasant incomes and the losses from bad storage have, in practice, fallen largely on the urban sector. However, post 1978 deterioration in transport and endemic shortages (leading to empty shelves and/or 'pre-magendo' prices) have hit the peasant sector's cash transactions

particularly hard. For food crops (especially if one includes those without official prices) rural/urban terms of trade improved over 1974/80, for industrial/export crops they worsened.

The underlying growth rate in peasant agriculture of over 4%<sup>19</sup> and the relatively good terms of trade here meant that following the 1973/and 1974/75 drought, peasant incomes and purchasing power recovered to a new high in 1977/78 perhaps 10% per capita above its previous 1972/73 high. Since then bad weather - and more rapid inflation - plus the end of the coffee boom - have led to a reduction probably of 5% in real terms for the sector but over 12.5% per capita given population growth.

The picture on the private purse side is then one of modest but substantial progress until 1974 for poor urban workers and until 1978 for peasants, but substantial subsequent falls. These have to a large extent turned on the 12½% loss of real purchasing power of GDP over 1972-75 from external terms of trade shifts, briefly clawed back at the peak of the 1976/77 beverage boom but followed by a loss of at least 15% over 1977/81.<sup>20</sup> As a result an average rate of increase in per capita constant price output of about 4.5% over 1972-1981 has been cut to under 3% (below the rate of growth of population) by external terms of trade losses.

#### Access to Public Services

Pre 1967 public service expansion tended to be urban and upper income group biased - in practice albeit not in intent. This related in part to emphasis in education on secondary and tertiary to citizenize the state and productive sector senior posts and in part to the almost insuperable problems of providing services to a rural population dominantly in scattered households. That said there was an inertial bias toward slightly modified industrial economy models - applicable only in cities and, even there, only for middle and upper income groups - especially in housing, health and water.

From the early 1970's the focus was shifted to universal access to water, primary education, health and adult education. Sanitation (pit latrines) was a separate campaign. It falls either under exhortation or health education as the physical inputs to achieve the shift from 16% to 45% or better access to pit latrines were wholly from the users. Housing is a target area but public sector housing is recognised to be unable to cope with more than a fraction of urban demand and to be largely irrelevant to rural, and the impact of low cost housing support, provision of training and tools to colleges for housing improvement and urban site and service schemes while not negligible is very far from becoming general.

Water supply under public programmes now reaches at least 10,000,000 Tanzanians (7,000,000 rural) and the number served is growing 400,000 a year excluding increased use of existing facilities with population growth. The 1961 figure was of the order of 750,000. With greater emphasis since 1976 on local participation in construction and maintenance, the 1991 universal access target may nearly be met. Even more critical is whether with this approach the very high per cent of out of order systems can be reduced.

Primary education (for the full six year cycle) will reach near universality by 1984/85 with about 2,750,000 - 3,000,000 students versus 500,000 in the 1960's and under 1,000,000 even in the early 1970's. Adult illiteracy has been reduced from 80% at independence to 30%. While continuing adult education has slackened somewhat since the mid 1970's, a wide variety of facilities and courses are provided including a series of full development colleges with courses oriented to (and partly chosen by) villages.

Medical services have expanded primarily at rural medical centre and urban out-patient clinic level on the curative front, by vaccination campaigns on the preventive and by nutrition and child and mother care on the educational-preventative front. The average annual number of visits per Tanzanian to a

medical facility is 4 (perhaps 3 in rural and up to 10 in urban areas). This service is - at basic level - now actually accessible to about 90% of the population (100% urban, 85% rural). However foreign exchange constraints have reduced availability of drugs and supplies faster than better organisation of purchases and prescription lists have been able to improve efficiency in their use leading to a decline in quality of service since 1979.

Urban services have declined in quality and - because of fund constraints on extensions to new areas rather than public policy on services - in percentage of urban population covered particularly in newly opened low income areas. While the deterioration is sometimes linked to the 1972 abolition of urban councils (a factor in their 1979 reinstatement) the basic cause is the tighter post 1974 budgetary position combined with continued top priority to moving toward universal access to basic services in rural areas.

While through 1981 the record on basic service provision remains one of quantitative progress - overall and rurally but not in some urban areas - deterioration in maintenance and operating inputs has reduced quality dangerously. 1981/82 - 1983/84 constraints on the capital (development) budget are likely to slow, but not halt, quantitative growth. Whether enough leeway in the Recurrent Budget can be found to restore operating input and maintenance levels to 1974 or 1978 standards (in themselves barely adequate) is more problematic. As with the loss of ground on eliminating the personal income face of poverty, this is not a matter of priority shifts but of resource constraints.

#### Basic Human Needs Absolute Poverty, Equity, Equality

As underscored earlier Tanzania did not adopt a "Basic Needs" approach because it had become fashionable. At least in the case of the ILO the causal direction is the other way - Tanzanian experience was heavily drawn upon (whether always accurately may be another matter) in formulating the ILO approach to basic needs.

As perceived by Tanzania these needs are:

- a. adequate earned personal incomes for all households to meet basic personal consumption needs - a result requiring both adequate levels of productivity by workers and peasants and equitable levels of remuneration in relation to productivity and the cost of basic consumption goods;
- b. universal access to basic public services;
- c. opportunities for employment or self employment for all able bodied Tanzanians at levels of productivity and remuneration (income) compatible with the first need;
- d. participation in decision taking and implementation by workers and peasants to preserve commitment to the other goals, and to mobilize worker and peasant involvement in action directed toward achieving them;
- e. creation of an adequate economic policy and institutional infrastructure - including investible surplus, tax revenue, foreign exchange - to sustain growth in productive force levels - needed to allow substantial progress.

The participation goal/need is treated in a separate chapter while the "broad infrastructure" one is central to both the political economic goals and macro economic record chapters.

The employment/self employment goal has never been fully articulated - primarily because urban unemployment rates have tended to be below 10%. urban wage employment - at least until 1975 - rose at least as rapidly as urban population, the 'informal' (urban low and middle income self employed) sector has real incomes for most members fairly near the minimum wage and was much smaller than the 'formal' urban wage earning sector, and most employment was necessarily rural self employment.

Whatever overstaffing has occurred in the public (and for that matter the private) sector - and in some cases it is substantial - does not relate to public policy

except to the extent the overstaffing is the result of a fall in possible output and its short term 'solution' would require non-voluntary redundancies. In general low - often inadequate - attention has been paid to employment impact of technological and institutional choices; in construction with negative impact on employment, cost and import content.<sup>22</sup>

Articulating and overall employment/self employment strategy may or may not be a high priority. But, developing guidelines for testing alternative technological and institutional approaches and applying these guidelines at programme, policy and project level is a priority. The advantages of wells over boreholes (where technically suitable) in terms of initial cost, feasibility of maintenance and attainable level of local involvement are now clear - conscious application of employment (or self employment) criteria might have hastened that realisation. Recurrent vague ideas (fortunately never seriously acted upon) of growing substantial quantities of maize<sup>23</sup> on large, mechanized farms are, in practice, technically/institutionally unsound, cost ineffective and prohibitively expensive in foreign exchange terms. But their ultimate inappropriateness is that, if effective, they would render a quarter of Tanzania's peasants redundant! Guidelines for testing agricultural policies and projects in terms of positive and negative impact on employment and self employment are needed not only to avoid embarking on major structural errors but also to evaluate proposals (and alternative ways of implementing them) whose impact on employment, self employment and overall poverty reduction can neither be intuited nor determined by simple inspection.<sup>24</sup>

The private and public purse aspects of basic needs (material goods, marketed services or non-mobilised services whether public or private) at first glance do not appear to require substantial attention to equality or even to equity in the sense of limiting inequality. Indeed, as noted, over 1961-67 Tanzania's attempted implementation turned on formal equality of access backed by gradual expansion of productive and social services without specific regard to whether,

or what, preparation actually reached poor peasants and workers. From 1967 the inadequacy of this approach was recognised.

On the "public purse" poverty eradication side this took the form of strategies for achieving universal access to basic services. On the "private purse" side it centred on minimum wages and - less coherently or consistently - grower prices plus inputs of goods, services (eg procurement) and knowledge to raise grower productivity and incomes.

However, in the context of scarce resources, these priorities forced greater attention to articulating policies related to acceptable degrees of inequality, and to controls on actions which either threatened the realisation of absolute poverty reduction, or offended against the ethics of distributional equity by flaunting unequal income, in the form of very overt consumption of goods beyond the reach of the vast majority of Tanzanians for the present and for the reasonably foreseeable future.

Thus the initial policy of salaries standing still while wages caught up - which over 1961-1970 was quite consistent with most individual salary earners receiving substantial increases in real purchasing power through a combination of increments and promotion - came to be inadequate as a guideline. Similarly price management by 1973 became necessary to balance the need to prevent minimum wage increases (and indeed almost any economic shock) primarily benefitting retailers, while also preserving adequate flows of investable surplus - especially in manufacturing and wholesaling. Finally, the systematic use of tax measures as redistributive devices developed beginning with the 1970 substitution of sales tax (at least two thirds urban incidence) for graduated local rate (wholly rural incidence) and the broad pattern of rates (including zero rate on basic food) adopted in the Sales Tax.

Tanzania's stress on overcoming absolute poverty and reducing inequality has

sometimes been misinterpreted either as asceticism or as an acceptance of permanent extreme poverty.<sup>25</sup> Neither reading is accurate. The anti absolute poverty aspect is exactly the reverse - a condemnation of material deprivation leading to the direction of resources and mobilisation of effort to overcome it. The equity/equality aspect is dominated by a concern for distributive justice perceived as the limitation of the share of scarce resources consumed by a small number while many remain in, or barely above, absolute poverty. There is a potential anti-consumerist line in some Tanzanian leaders' statements, but this relates dominantly either to goods which cannot be available to all or a majority of Tanzanians within this century, or to the growth of clearly inessential consumption by the affluent industrial world minority of the earth's population, which prejudice resource availability to poor countries and their peoples. It does not relate to any opposition to substantial increases in per capita consumption nor over time adding items - eg bicycles, radios, sewing machines, fans, ice boxes/refrigerators, windows, leather shoes - to the typical household consumption basket.

#### Toward Lesser Income Inequality

Action in respect to income distribution can be considered in two ways: programme and policy instruments used; trends and patterns. It is convenient to treat programmes and instruments first with brief references to impact followed by a review of the relatively incomplete and somewhat subjective data available on trends and patterns.

The major programme/policy instruments fall into six clusters:

- a. fiscal (revenue and expenditure);
- b. wages, salaries, fringe benefits;
- c. prices (grower and user, subsidies, relative price structure);
- d. controls over conspicuous consumption;
- e. limiting opportunities for exploitation;
- f. raising low income individual/group productivity and/or access to technology/  
self employment.

The last three clusters are not usually seen as part of egalitarian income distribution policy (albeit the sixth is perceived as oriented to poverty eradication). However, they are of considerable relevance to achieved levels of income, to perceptions of inequality and to actual opportunities for low income groups (and especially new labour force entrants) to achieve consumption standards out of earned income at least near the minimum wage level. The first three clusters form the core of income distribution policy proper, but have been touched on in other chapters and will be reviewed relatively briefly in the present context.

#### Fiscal Policy and Practice

Taxation policy as discussed in the chapter on government revenue and expenditure<sup>26</sup> is progressive both in respect to direct and (by the selection of rates and items) indirect tax. The results are also progressive with respect to income.

In addition, taxation policy is in practice - and, albeit less clearly, in principle - structured to give a lower incidence on rural incomes than on urban at any level of income. This results primarily from the large household produced/consumed (so called "subsistence") component of rural incomes and from the de facto lower rates of income tax on all except the very largest rural incomes resulting both from assessment problems per se and from limited personnel.<sup>27</sup>

Expenditure policy and practice are harder to characterize simply, and present almost insuperable barriers to comprehensive quantification. The increased stress on universal provision of basic services discussed in the preceding section and on rural development oriented services<sup>28</sup> has reduced inequalities in services used by income groups and on an urban/rural division.

Allocation of public expenditure by income group poses severe conceptual and practical problems. On the order of 50% is not allocable except by heroic assumptions eg defense, police, general administration, foreign affairs. Further,

there are conundrums in allocating on cost versus benefit bases eg police protection is relatively most effective for banks, government offices and low income residential areas and least effective for private cars, higher income residential areas and tourists. Higher education goes to a group which at the time has relatively low or relatively high incomes depending on whether one treats the cost of education as part of their effective income; to members of families with - on average - moderately above average incomes; to individuals whose future incomes will - by virtue of that education - be in the top 1% of the income distribution.

Limiting examination to the half of expenditure which is roughly allocable suggests a differential between the bottom quartile (lowest quarter) and the top decile (highest 10%) of perhaps 4 or 5 to 1. This is substantially less than the difference in pre-tax incomes and therefore makes the spending (as well as the funding) side of government revenue progressive.

The urban/rural impact of spending has been more energetically debated.<sup>28</sup> Again, allocation problems are severe. Quite apart from unallocables such as defense, two further conceptual problems arise. Is the question the location of expenditure or the beneficiary of expenditure or the recipient of income? Eg agricultural higher education is in a town, educates students who are mostly rural in origin, pays wages and salaries to urban (and certainly not peasant) employees. Rural or urban? Other items are allocable in theory but pose practical problems of division, eg roads which carry goods from and to peasants (and from and to towns) clearly should be allocated partly to urban and partly to rural on a benefit criterion, but how? 50-50? In terms of value of goods?

On the basis of the moderately simply allocable half of expenditure, the breakdown appears to be 27½-35% rural, 15-22½% urban, with a tendency since 1972 for the urban share to fall relative to the rural. This is related to decentralisation as the Regional and District Administrations have clearly been rural biased

to a rather surprising extent - one of the reasons for restoration of urban councils to correct a degree of bias which was contributing to significant absolute decline in secondary town services.

On the basis of 15% urban and 85% rural population, this suggests a difference in expenditure per capita of 2.5 to 4.5:1 in favour of urban. This is substantially less than the perhaps 8:1 cash income disparity and at least at the lower end of the range substantially less than the probable real consumption power inequality of 4 to 5:1.

The recurrent revenue side is clearer. Since the abolition of export tax, rural contribution to revenue is basically 25 to 30% of sales tax and of taxes on transport<sup>29</sup> or 15% odd of public revenue. This is substantially less than the rural share in cash - let alone cash and producer consumed-income and also substantially less than expenditure in respect to the rural population.

Alternative estimates<sup>30</sup> turn on differences in respect to capital expenditure financed by borrowing. Domestically the dominant sources are currency holdings, bank deposits, life insurance premia and pension funds - on balance 75 to 85% urban in origin. Externally the question turns on repayment. The superficially attractive assumption is that foreign loans are repaid in foreign currency which is 80% or more earned from agriculture. This, however, is to confuse revenue and foreign exchange. From an incidence point of view, the revenue comes from general revenue (85% urban) not direct from export proceeds. The more general confusion is between surplus generation/use balance (on which head agriculture has a deficit) and foreign exchange generation/use (on which it has a surplus).

The general conclusion from the admittedly weak data is that both revenue and expenditure are progressive and also alter the after tax and receipt of services income distribution balance in favour of rural areas. Whether they do either to an adequate extent is a more open question - the Tanzanian performance is

on revenue progressivity and rural bias relatively unusual (ie revenue is usually proportional and the expenditure bias to urban not rural) and both appear to be increasing over time with 1969 (sales tax for graduated local rate), 1970/72 (decentralisation and starting of universal service emphases), 1981 (end of major export taxes) involving the sharpest in a series of steps in that direction.

#### Wages, Salaries, Fringe Benefits

The relative disparity narrowing nature of wage and salary policy has been discussed in the previous sections. Its impact on government wages and salaries - where it is most effective - is presented in the chapter on government revenue and expenditure.<sup>31</sup>

The institutional mechanisms are multiple:

- a. a wages tribunal<sup>32</sup> (effectively a government tribunal as labour and employer members are advisory) which must examine and approve, modify, or reject all proposed changes in wage and salary agreements pertaining to scales and bonus agreements except for government employees and which statutorily acts within government set criteria;
- b. direct statutory adjustment of the minimum wage (and in 1974 all wages and salaries) including the government, parastatal and private sectors;
- c. government wage and salary setting on the proposals of the Central Establishments unit of Management Development and/or the Treasury and - except for anomaly eliminating adjustments - de facto subject to decision by the Treasury in terms of the budget related demand/supply/standard of living/revenue/expenditure package of proposals;<sup>33</sup>
- d. parastatal scales related to the government ones with a 10% allowance to offset contributory pension (government pensions are non-contributory while most - not all - parastatal are contributory) subject to approval and review by the Standing Committee on Parastatal Organisations.

In general the system works as intended. However, it is subject to certain

leakages and de facto gaps in coverage. Those concerning small employers are probably fairly trivial as far as unauthorised increases go but - especially in respect to casual rural, domestic and small urban commercial establishment (eg bars) employment - results in some payments of less than the minimum wage.

Salaries are hard to control because writing up a new post or cadre can result in effective salary increases and because promotions which in practice create a top heavy structure are not easy to monitor individually. These constitute a moderate leakage in central government and most parastatals and a severe leakage in some parastatals. In the private sector where formal group salary agreements do not exist, the present legislation does not apply (or at least has not been applied) so that for artisans, technicians, professionals, managers, medium and large private employer scales (and fringe benefits) are in many cases significantly above those of the public sector.<sup>34</sup> This has led to a serious drain of personnel (despite bonding of trained personnel) at these levels as the stronger private sector firms prefer to bid away trained personnel (even if they have to pay off their bonds) to organising training programmes themselves.<sup>35</sup>

At one point in the 1970's some parastatals had begun to develop a habit of paying "unofficial" amounts above agreed contracts - and not registering them. A combination of queries from the Audit Corporation and the Labour Tribunal appears to have limited (or eliminated) this practice which is almost certainly either illegal as unauthorised expenditure or as unauthorised contractual increases depending exactly how the payments are arranged and handled.

Productivity incentive payments have been and are a source of some dissent and of major practical problems. A brisk debate at the turn of the 1960's/1970's - following a high initial bonus payment by the National Bank of Commerce, itself a rather extreme example of the productivity, defined as profit, related bonuses which the Labour Tribunal was authorised to approve, reached a broad consensus:

- a. productivity related bonuses were consistent with transition to socialism;
- b. they should relate to additional surplus generated by worker efforts not to base levels of surplus or to increases arising from other factors (eg higher interest rates in bank cases);
- c. they should be distributed on a more equal basis than basic wages and salaries - ie flat rate to each worker or limited range of rates of bonus;
- d. they were to be approved in advance of the year(s) to which they were to apply by the Labour Tribunal and to incorporate clear criteria for determining what bonus - if any - was payable to them.

In practice this approach has not worked well given the 1974-76 and 1979-81 constraints on the economy. Profit increases were relatively easy to secure in financial institutions - where productivity per person in semi-physical terms probably did improve<sup>36</sup> - and because total surplus per employee was very high, even modest percentages of "profit above budgeted target level" led to proposed bonuses large enough to cause general resentment and - in 1980 - a call for a rethinking of the system. Profit levels elsewhere depended so heavily on import availability (related to the perceived macro importance of the firm), on rate of increase of import costs (since price management tended to cause profit falls if input cost increases were sharply above projections)<sup>37</sup> and degree of interruption of water - power - transport that relating achieved versus targeted or present versus past profits to labour effort/efficiency was virtually impossible. Nor would physical target ratios provide a way out as at least the import and services constraints weighed on achieved physical output, as well as on achieved surplus.

1981 rethinking of bonus and incentives policy<sup>38</sup> does not seem to have overcome this problem. Its proposed positive and negative (redundancies, frozen increments, no promotions) incentives will be demonstrably unfair if linked to overall output or profit changes whatever their cause and almost impossible to

compute in relation to labour effort/efficiency except for the most efficient enterprises producing critical goods or services<sup>39</sup> and the most totally inept parastatals (eg NMC, TAFICO). Further, it is somewhat difficult to impose penalties at all levels if the basic weaknesses are at middle and top management level not at that of production and supporting wage earners.

Fringe benefit control is problematic - data are very fragmentary. In the public sector fairly strict limitations exist on paper and - except for use of automobiles - moderately comparably in practice. Use (abuse) of public institution vehicles is moderately common and more serious in its psychological impact and as evidence of improper conspicuous private consumption at public expense than for its overall effect on income distribution which is fairly minor.

The main public sector "fringe benefits" are: contributions toward pensions (universal with a relatively standardized parastatal and a uniform government scheme), housing provision (uneven by institution and type of employee), subsidised noon meals (a minority of parastatals), leave travel allowance, institutional travel to and from work, and institutional medical schemes (a majority of parastatals). For a parastatal with fairly generous provision - eg NEC 1980-81 - these can add up to two thirds of basic wages and salaries. In this case subsidised noon meals average about 17½% of basic pay, superannuation and welfare about 19%, leave passages of the order of 2%, travel to work over 10%, medical expenses about 3% for a total of 50% before housing costs (basically maintenance, depreciation and deemed interest on residential property plus secondary rental and rent subsidy items) less rents charged which may be of the order of 15% of basic wages and salaries. NBC is atypical - the average for the parastatal sector may be of the order of 30% and for the government perhaps 10%. (partly because pensions are paid on a current, not charged on an accrual basis, partly because there are no special medical schemes and partly because housing stocks are largely rather old and none too well maintained).

The effect of fringe benefits on income distribution is complex:

- a. in general they widen urban/rural (and certainly peasant/wage earner) differentials;
- b. overall they are, on the face of it, less unequally distributed than wages and salaries - clearly true for transport and subsidized meals and pensions (because of the minimum level at Sh 480 a month)<sup>40</sup> while housing has dual peaks for selected low and most upper income public sector employees (tied to access to institutional or rent subsidised housing, rather than to the mildly progressive rent change related to wage (7½%) and salary (10% levels)<sup>41</sup>;
- c. however, the payments are so unequal by institution that the presumption of lesser inequality must be modified, and may be reversed for public sector wage and salary earners as a group. First, parastatals in general pay more than the government by wage and salary grade for equivalent jobs and give more fringe benefits. Second, the more efficient and higher average wage/salary parastatals (notably the financial institutions) pay higher proportions of fringe benefits relative to wages/salaries than those with lower average (per capita) wage/salary bills.

For the private sector, neither data nor - beyond collection of income tax on the more obvious fringe benefits including use of car and subsidised housing - controls exist. In general, it would appear that the relevance of private sector fringe benefits to income distribution has not received attention, and that in relation to public sector has not been systematically examined or articulated.

#### Prices, Incomes, Purchasing Power

There are two sides to price management as it related to overcoming absolute poverty and reducing inequality - grower and consumer. The former has been discussed in the previous section and in the chapters on agricultural production and rural development.<sup>42</sup> It has not, in general, been oriented to reducing

intrarural inequality nor very systematically to reducing urban/rural even though it has had a decided impact on that front.

Prices for particular crops could, in theory, be set on the basis of return per typical grower household cash income per working year. However, this has not been done. Calculations have tended to be per day. As the number of days worked on a typical holding varies widely from crop to crop, this approach - even if used much more systematically than it has (per day returns for 'typical' growers show a 4 or 5:1 range for set price crops at 'improved traditional' cultivation practice level<sup>43</sup>) - would not reduce inequality markedly. Further, no pricing approach would directly benefit areas whose output was lower (or cost higher) for ecological, location or agricultural practice reasons.

On the other hand, uniform 'farmgate' pricing for certain crops plus improved procurement for a wider range of food crops does create a tendency toward lesser inequality in rural incomes. This is most marked in border regions with no major export/industrial crop eg much of Ruvuma, Rukwa, Songea, Kigoma. In these cases the higher price to growers (resulting from averaging transport costs) and greater availability of buyers have resulted in sharply increased commercial sales in both value and volume terms.<sup>44</sup> More generally, domestic food crop oriented peasants tend to have lower average incomes than those whose cash crops are industrial/export oriented. Therefore, the increase in the prices of domestic food relative to export/industrial crops has tended to reduce income inequality. Over 1967-77 these factors were not enough to prevent rising rural inequality, but over 1977-81 they have probably contributed to a reduction.<sup>45</sup>

Consumer price control is part of a broader price management structure which is also directed to maintaining manufacturer and wholesaler investible surplus.<sup>46</sup> The particular problems of 'windfall gain acquisition' and price ratchet effect to economic shocks of the retail sector over 1970-73, lay behind the

creation of the Price Commission to manage prices and give it a strong orientation toward limiting distributive sector margins and especially to averting their sudden expansion as a result of real or contrived shortages and unreal or overstated cost increases.

The Commission's methodology is projected cost plus at specified output and efficiency levels. The result is a substantially lower level of manufacture/importer price increases than applied for and a 1973-80 record of domestic manufactured goods price rises (excluding indirect taxes) below either the cost of inputs or the overall cost of living index. Because of greater than anticipated constraints on output, 1979 and 1980 surplus results for manufacturers and importers have been below levels intended by the Commission for most firms.

#### Limiting Conspicuous Consumption

Limits on what the upper and middle income groups may consume does not directly affect the distribution of income. Its probable effect is to divert consumption from one amenity or luxury good to another eg Mercedes and French brandy to local brandy, restaurant meals and weekends at Mikuni.

Its main purpose is either to limit flaunted inequality based purely on wealth (especially in a context of sharing sacrifices) or to conserve scarce resources (especially foreign exchange).<sup>47</sup> The first purpose is illustrated by automobiles - the main example of sumptuary legislation.

- a. since 1971 to buy an automobile less than four years old requires a permit issued on demonstration of a public or social need as well as a private ability to pay:
- b. since 1974 there have been restrictions on non-business use on Sundays;
- c. as of 1981 petrol rationing has been introduced.

The impact is largely psychological. Youths with wealthy parents can no longer buy new cars and zoom through low income areas (albeit there has been a shift

to motorbikes and there are rackets in two to three year old vehicle acquisition). Car owners are visibly constrained in use of the most conspicuous of all consumer goods. How much foreign exchange - beyond that from limiting saloon car imports - has been saved is a very problematic point and has been known to be in respect to decisions on all three restrictions.

Since 1974 (somewhat earlier for eg cigarettes, other tobacco products, beer, spirits) almost all luxury and amenity goods have received nil foreign exchange allocations. This does have the effect of reducing disparity of consumption standards in respect to consumer durables (albeit against the younger members of each income group as much as between groups, because the older ones, at least in respect to consumer durables, have more pre-1974 purchases). It does save foreign exchange; albeit carried as far as in Tanzania it also creates maximum incentives for smuggling (basically to serve limited upper income groups) and for securing official trips abroad (basically a senior civil service/managerial "fringe benefit") to acquire goods. These measures are not usually perceived in the context of income distribution.

#### Limiting Opportunities for Exploitation

One set of limits on opportunities for exploitation have been structural: expansion of the public directly productive sector, abolition of large scale landlordism, creating a structure of price management, strengthening participation (vis a vis owners, managers and officials), establishing and largely enforcing a leadership code that prohibits political leaders and senior public sector personnel from significant involvement in the private sector.<sup>48</sup> Until 1974 progress was real, albeit slow, uneven and sometimes hard fought. Since 1974 the main area of gains is in respect to villages where the manipulative and coercive power of rural elites and government officials vis a vis peasants has clearly been weakened.<sup>49</sup> The context of extreme shortages is one in which price management at best works inadequately and that of rapidly rising real costs

(with an import cost basic dynamic) makes it seem to be less operational than it is.

The structural changes in respect to rental housing are clearly partial in result. They are to the benefit of one above average income group (the tenants of Registrar of Buildings accommodation) at the expense of another - on average somewhat higher - above average income group. The balance of the public sector housing programme is directed a) to public sector officials (as discussed earlier), b) to wage earners (minimum through lower salary), and c) to peasants (via village or individual improvement loans). Despite the substantial resources of the Workers and Peasants Housing Development Fund, 'c' is the smallest, and the related low cost housing loans to urban wage earners supervising fundi builders not much larger, because the Housing Bank has not developed viable ways of channeling funds, and no "modern" housing body public or private (the National Housing Corporation is better than most low income country institutions in this regard) can compete with the "informal" (or small scale, or modified traditional or fundi) sector in house cost, nor build and rent at rates consistent with what a minimum wage earner can afford and corporate solvency.

What has kept urban rents for low income groups relatively low (and apparently rising less, or no more rapidly than, prices in general) is structural but not normally seen in terms of income distribution or prevention of exploitation. It is the fact that houses built on unsurveyed land unless in the route of a major project will not in fact be bulldozed, can ultimately get a right of occupancy, are seen as having a claim on basic services and can be built at costs resulting in rents low income groups can pay. Unfortunately the inability (or professional unwillingness?) of Lands to do rough surveys marking streets and sites for schools, parks etc and to issue short term rights of occupancy promptly and more or less on request (as the 1974 Act envisages) means that while such housing is reasonably cheap and secure, and tends to be upgraded and to acquire services over time, it develops on unplanned (or village circle

planned) layouts which make road, water, school, park (football pitch) location later difficult, and without any public service knowledge of its growth or location, which retards orderly provision of services.

Largely external controls or checks range from rent control and workers committees<sup>50</sup> to anti corruption units and Party probes.<sup>51</sup> While effective to a degree at highlighting specific abuses in specific cases, they have probably been less effective than the structural changes. This may be an unfair interpretation since these controls have - except for the first two - been used most since 1974 during a period of increasing opportunities for abuse. Certainly corruption is and is seen to be greater than in 1974. Further, it is doubtful whether organised control bodies are as effective in identifying and acting on cases as complaints through other channels. Price Commission initiatives in 1980 and State House action in 1981 (both after direct complaints from individuals) seem to have had a substantial impact in Mwanza, but neither went via police or anti corruption channels and - more worrying structurally - neither went via Regional governmental or Party channels either because those with grievances felt that those engaged in corruption either controlled or could block those channels.

Controls over private health practice - phased out over 1976-80 except for licensed non-profit bodies - and private education - more tightly regulated and limited in expansion from 1978 - have more complex rationals. Private practice doctors were among the highest income Tanzanians. What they sold was a basic service. Either they grossly exploited the poor, or by catering for the less poor, reduced support for the public sector health services' improvement - or both. As the sector was small the phaseout was fairly simple.

Private education - basically secondary - poses greater problems. Secondary education is a key to earning a high income (even if it is not adequate to assure that result). The public system is selective because its size is

limited to numbers perceived as needed by the economy and society (a situation which, incidentally, though in the Tanzanian case not intentionally, sustains salary levels). Therefore, middle and upper middle income parents not in other respects antagonistic to egalitarianism or socialism, do seek to improve their childrens' life chances by securing private school places for them. At the same time, these schools tend to produce graduates in surplus, not shortage, personpower areas. Control rather than abolition raises less political and social problems in the short term, but can be said to face the longer term issues only if it halts private sector expansion and ultimately phases the existing private into the public sector.

#### Productivity Raising Approaches

Programmes designed to raise the productivity of low income peasants and workers can be grouped in three broad clusters:

- a. basic services;
- b. rural inputs;
- c. small industry promotion.

The first has been examined above and the second in the two chapters on agriculture. Their total impact on income and on poverty eradication has been substantial. So has their contribution to reduction of inequality on the "public purse" (access to public services) front. But it is less clear whether they have been significant in reducing inequality of earned income of Tanzanians. Education beyond primary level has made possible rapid Tanzanianisation (and development not possible had the posts needed to be filled by expatriates at expatriate costs), but in so doing it has created the upper wage and salary portion of the income distribution. Rural credit, subsidies to inputs and extension services have tended to be biased to export/industrial crops and within them to coffee and tobacco, which - for the producers accounting for the bulk of output - provide incomes above the Tanzanian average. While this bias has been sharply eroded - especially in respect to extension and seeds - it has by no means been eliminated. Therefore, while rural input provision/subsidy

reduces urban/rural inequality and absolute poverty, it may - on balance -  
increase intrarural inequality.

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Small industries development has received far less resources than rural inputs. Its expansion during the 1970's has been parallel to expansion of craft and small industry output.<sup>54</sup> How instrumental it has been in that increase is less clear. General reduction of competing imports has been at least as significant. Further increases in semi-skilled and artisanal personnel and reductions in alternative opportunities for private investment have been conducive to the expansion.

Most small and craft industries are private sector. The bulk of the employees and craft proprietors receive moderately below (many self-employed craftsmen) to moderately above (some self employed craftsmen, wage employees) the minimum wage. Expansion of this body of employed/self employed does reduce urban income inequality. However, especially given the higher incomes of proprietors, it is doubtful whether this impact is significant. It should be noted that SIDO and small industry promotion generally have been seen not as egalitarian but as production generating and local resource using policies. If a substantial village industry sector were to develop this would reduce urban/rural and national inequality but, because it would almost certainly be centred in a minority of villages which were rarely the poorest, would probably increase intra rural inequality.

As with the possible increases in inequality resulting from post-primary education, those potentially resulting from small industry expansion are not the result of decreasing one group's income to benefit another. Therefore, their promotion on production, Tanzanianisation and national economic integration grounds is not inherently inconsistent with a goal of egalitarianism. However, they do not directly contribute toward it.

Toward An Incomes Policy?

Tanzania has - with the partial exception of 1974-75 - never had an explicit, coordinated income distribution policy. The instruments from which such a policy - ie an Annual Incomes Plan - could be constructed exist. So do the absolute poverty reduction and inequality reduction goals which could be used as a framework for target setting. However, despite fairly systematic consideration of income distribution results of some (not all) major policies and resource allocation, income distribution planning as such has not been consolidated as - eg - personpower, foreign exchange or bank credit has been.

The nearest approach to such coordination is in the Recurrent Budgetary process. This is evidently true of fiscal measures - whose impact on income distribution has been explicitly mentioned in most Budget Speeches from 1969 onward - but is in practice rather broader. Decisions on agricultural prices and on wages are, in practice, taken over the same period as the fiscal budgetary decisions and are, to a varying degree, coordinated with them. This was most marked in 1974 when a package of consumer price, grower price, wage and salary tax and expenditure decisions were taken as a unified programme for adjusting to world grain and oil price increases and to drought. Protection of low income groups and - in part consequentially - reduction of inequality were central to that package.<sup>55</sup> However, the precedent has not been repeated.

The apparent reasons for the absence of a coordinated annual plan are probably five fold:

- a. the very severe uncertainty as to agricultural income on weather grounds which is not subject to policy alteration;
- b. the weakness of much of the relevant data - especially on self employed and the private sector more generally;
- c. the lack of adequate personnel or sustained interest by the Ministry of Economic Affairs and Development Planning;
- d. the vested interests in some instruments - eg grower prices - leading to

resistance to their coordination with other decisions;

- e. The relative success of the multiple instrument policy as pursued on a semi-coordinated basis.

That this explanation constitutes an adequate justification is much less clear. A coordinated annual planning exercise would make the data gaps and weaknesses more generally apparent and - perhaps - generate pressure for, and resource allocations toward, improving the data base. Coherent, regular attention to the income distribution impact of agricultural prices is badly needed (even if it cannot be the sole determinant) and would presumably be easier to achieve within an overall income distribution planning (budgeting) framework. The Treasury - precisely because its decisions dominate some, but not all, distributional instruments - is inherently a second best coordinating body to Planning. The lack of attention to non-agricultural self employed incomes and to private sector upper wages and salaries which has marked 1967-81 policy would be less likely to continue within a more systematic annual planning exercise.