THE CONTINUING CRISIS OF THE TANZANIAN ECONOMY: THE POLITICAL ECONOMY OF ALTERNATIVE POLICY OPTIONS

By

*Ajit SINGH**

I. INTRODUCTION

The world economic crisis of the last four years which has adversely affected most countries, both developing and developed, has had particularly devastating consequences for the African economies. *(1)* A large number of the latter have had to seek assistance and conclude conditionality agreements with the International Monetary Fund (IMF) to cope with the severe balance of payment problems which have resulted from the crisis. Invariably, in the short term, the Fund's adjustment programme for the African countries have included *inter alia* the following elements: *(2)* (a) a large devaluation of the domestic currency; (b) a reduction of public sector borrowing requirement by means of reducing or eliminating consumer subsidies and many other social expenditures; (c) an increase in interest rates to raise domestic savings; and (d) reduction of money supply. This is supplemented in the short to medium term by the IMF emphasis on changing the 'inefficient' structure of these economies by measures such as favouring the production of export crops over that of food or manufacturing, private sector economic activity over the public, parastatal or cooperative production, the allocation of resources by market forces (for example by 'liberalising' price controls or import controls) rather than directly by the government.

In the above context, the case of Tanzania is particularly significant. Although faced with a similar if not more serious economic crisis than the other African countries, Tanzania has not accepted an IMF policy programme during the last three years. *(3)* There have instead been protracted negotiations between the IMF and the Government of Tanzania which are still going on. In the wider setting of the mounting criticism of the IMF conditionality both by academic economists in the West *(4)* and by the political leaders of the Third World, the differences between the Government of Tanzania and the IMF about the nature of the appropriate adjustment policies for Tanzania assume a special and more general interest.

This paper has two main objects: (i) to elucidate and to comment on some of the major points of disagreement between the Fund and Tanzania; and (ii) to set out the analytics of the alternative macroeconomic policy options, if any, which may still be feasible for the Tanzania economy. However, to put this discussion in perspective, the paper will start with a brief review of the present state of the Tanzanian economy and the precise nature of the adjustment problem which the country faces.

---

* *Faculty of Economics, University of Cambridge.*

II. – THE CONTINUING CRISIS OF THE ECONOMY

The crisis of the Tanzanian economy has continued unabated. The available statistics indicate that in 1982, GDP fell by 3 per cent, compared with a fall of 1.8 per cent in 1981. As a consequence of the increasingly difficult foreign exchange situation, industrial production is estimated to have fallen by 25 per cent in each of the last two years; the level of overall capacity utilisation in industry is currently of the order of about 20 per cent. 1982 was also a bad year for agriculture, particularly for export crops. However, notwithstanding the poor performance of the real economy, the rate of inflation has remained stable over the last three years: the official statistics indicate that the annual rate of increase of prices was 25.6 per cent in 1980; 30.2 per cent in 1981 and 28.9 per cent in 1982 *(5).* The last figure is particularly significant in view of the fall in production which has taken place. The growth of money supply has similarly been of the order of 20 to 22 per cent during each of the three years 1980 to 1982. Furthermore, despite a fall of 20 per cent in the value of commodity exports in 1982 (partly as a consequence of lower marketed surplus and partly due to a fall in commodity prices), the current account deficit fell. For 1982 it was about 8 per cent of GDP compared with a figure of 15 per cent in 1980. (1a)

In any overall assessment of the economy during the recent period, it is very important to adopt a comparative international perspective. The following points are particularly significant:

1. First, the Tanzanian experience of falling industrial and overall production is by no means unique in the third world. In intrinsically stronger and much richer third world countries, despite the help from the IMF programmes, there have been serious losses of production and employment. In 1983, the Mexican GDP is expected to fall by 4 per cent; real wages by nearly 25 per cent. For Brazil, many economists expect the GDP to register a fall of nearly 10 per cent during the year. In relation to Uruguay, the *Financial Times* reported as follows on 25 August, 1983:

> *The International Monetary Fund left Montevideo last week apparently satisfied that the Government had met its target set in a $ 400m (261m) two-year credit agreement signed in April. This in turn will pave the way for the disbursement of the second tranche of $ 240m loan from commercial banks. Over a quarter of Uruguay's $ 4.2bn foreign debt has been rescheduled.*
> *However, in the first six months of this year, gross domestic product fell by 10 per cent after a 10 per cent drop in 1982. Unemployment has risen to a record of more than 20 per cent. In Montevideo the signs are all too visible – there are many more beggars along its narrow, old streets than there used to be, and the housewives, for the first time, have begun to bang their empty pots.*

Similarly, with respect to Peru, the *South* magazine (October, 1983) observed:

> *About a year after the IMF and Peru agreed a three-year funding package, gross domestic product dropped by 10.7 per cent in the first quarter of 1983 and the most optimistic official forecast for the whole year is an 8 per cent fall. Inflation reached three digits in May, while the Peruvian currency, the sol, depreciated against the dollar by 132 per cent in the 12 months to the end of June.*

2. Secondly, the Tanzanian economy has been subject to greater shocks than most other economies, developing as well as developed. According to the IMF statistics (see IMF (1983a), since their last peak in 1977, the prices of primary commodities (other than oil) exported by primary producers fell in real terms (i.e. deflated by the prices of manufactured exports of developed countries), by over 30 per cent over the period 1977–82 *(6)*. In real terms the primary commodity prices in 1982 were at their lowest level since the Great Depression. The low income African countries have fared particularly badly in this respect. Their terms of trade declined by 15 per cent over the period 1973–76 and by nearly 14 per cent during 1979–82, despite the fall in oil prices in 1982. In both these three year periods, the terms of trade experience of low-income African economies were worse than those of any other group of developing countries. [World Bank (1983), Singh (1983a)].

In addition to the catastrophic deterioration in terms of trade which Tanzania shared with other low income commodity exporting African economies, the country also suffered from other significant shocks, the most important of which were the breakup of the East African Community and the war with Idi AMIN in Uganda. In view of these shocks and the fact that Tanzania is one of the world's poorest economies, the informed opinion (even including Tanzania's friends) during the last three years had been predicting a total collapse of the economy within a few months.

The financial Time quotes a 'depressed' aid official as follows: «Tanzania is the economic equivalent of the aero-dynamics of the bumblebee. In theory, the bumblebee shouldn't be able to fly, and Tanzania shouldn't be able to keep going», *(Financial Times*, June, 1983). Clearly, the 'the theory' is at fault here since it ignores the overwhelming importance of the politics and of the political institutions for a nation's economic performance. Evidently, because of Tanzania's political institutions and its political strengths, the country, despite all its faults and hardships, is still a functioning economy and policy. The rate of inflation in Tanzania has not sky-rocketed to Latin American dimensions and the currency has not collapsed – the normal signs of an economic breakdown.

3. Thirdly, and more significantly, although the statistical data are not yet available, all the signs are that the economic performance in Tanzania during 1983 was a notable improvement over that of 1982. Although industry continued to languish because of the foreign exchange position, agricultural production and the volume of commodity exports are expected to have registered an appreciable increase. In addition, the

country should benefit from the increase in commodity prices which has taken place during the last six months as a consequence of U.S. and the world economic upturn.

III. – THE LONG TERM STRUCTURAL IMBALANCE OF THE TANZANIAN ECONOMY.

The direct and immediate symptom of Tanzania's economic crisis is that the country does not have available adequate foreign exchange to purchase from abroad the requirements necessary to keep domestic production at normal levels of capacity utilization, let alone for importing consumer goods. It is, however, important to emphasize that this is not just a short-term liquidity problem but one of long-term structural imbalance in the entire productive structure of the economy. This is *implicitly* recognised by the IMF since they do not just recommend short-term financial measures but also propose major policy changes in resource allocation, income distribution and the system of incentives (see Section I) which they believe will bear fruit in the medium to longer term and thus help to correct the structural imbalance of the economy. However, the notion of structural imbalance is never made explicit or precise. To help in this task, so that at least there is agreement on the essential nature of Tanzania's economic problem even if not on the methods of solving it, in a previous paper (SINGH (1983), I have provided the following analytical definition of the concept of long-term structural disequilibrium of the Tanzania economy:

> *The Tanzania economy is in long-term structural disequilibrium in the sense that the productive economy is unable to generate sufficient exports to pay for the required imports (i) at a socially desired rate of economic growth; (ii) at a socially acceptable exchange rate and (iii) at a normal level of current account deficit.*

The economy of Tanzania is in fundamental disequilibrium since even at its existing 'abnormally' large current payments deficit, it is unable to achieve the minimum desired rate of expansion of national production. The qualifications (i) to (ii) in the above definition are very important. At a low enough growth rate (e.g. a large negative growth rate indicating a sizeable shrinkage of the national economy), Tanzania could conceivably still balance its payments, but that is not what it socially desired. Similarly, it is arguable that at a low enough exchange rate for the domestic currency, the current account may balance or reach its 'normal' level; however, even if this were to happen, this may generate socially unacceptable rates of inflation or income distribution.

As to the question what is the normal or acceptable level of external deficit, in operational terms, I would regard this as being about 5 per cent of GDP for Tanzania. This figure is based on the judgement that the international community would continue to provide Tanzania with aid and capital flows to that extent since it is one of the world's poorest countries *(7)*. If this assumption were to prove over-optimistic, the 'normal' level of deficit would need to be amended accordingly.

Tanzania's current account deficit as a proportion of G.D.P. has shrunk from 11 per cent in 1979, 15 per cent in 1980 to about 8 per cent in 1982. However, this has been accomplished largely by a reduction in essential imports which have adversely affected domestic production and capacity utilization. The central policy issue before Tanzania's leadership is how to reduce the current account deficit to 5 per cent of G.D.P. whilst maintaining a reasonable rate of economic growth.

There is reason to believe that the IMF would accept this conception of Tanzania's basic economic policy problem. They are, however, apt to ignore the following extremely important implications which ensue from the above analysis.

1. The external disequilibrium and the national economy

The first point to note about Tanzania's external disequilibrium is that this is the main cause of other financial and economic disequilibria which the country is at present afflicted with. Because of the balance-of-payments constraint, both agricultural and particularly industrial production suffer heavily. For example, it is due to the inability to import industrial raw materials, spare parts, etc. *(8)*, that the manufacturing industry is currently operating at only 20 per cent of its capacity. Similarly, agricultural production is handicapped directly as well as indirectly by the non-availability of foreign and domestic industrial inputs (e.g. fertilizers), transportation or incentive goods for farmers.

These disequilibria in agricultural and industrial production in turn generate inflation and disequilibrium in government finances. As sales and excise taxes on industrial production, and import duties, are a major source of government revenue, the balance of payments constraint is directly and indirectly responsible for the large budget deficits which Tanzania has been experiencing since the onset of the crisis. However, it has been estimated that if industry was operating at normal level of capacity utilization instead of its present low level, sales and excise tax revenues would be doubled, which would not only eliminate the current fiscal deficit, but also make a sizeable contribution to the capital account. (see JASPA/ILO, 1982).

In view of these considerations, the IMF argument that the economic crisis of Tanzania (and other third world economies) has been caused more by domestic mismanagement than by external factors is difficult to credit. However, as this argument has wide currency both inside and outside Tanzania, it is useful to consider it carefully. We have seen that the external payments deficit affects all spheres of the economy. For the IMF argument to be valid, it will need to be established that this deficit itself is due to domestic mismanagement rather than due to external shocks, which as seen in Section II were much more severe for Tanzania than for most other countries (developing as well as developed). Two observations are in order here. One, up to 1979, Tanzania's long term economic performance – both in terms of economic growth and meeting the basic needs of the people was highly satisfactory by comparative international standards *(9)*. It is hard to believe that ***since then*** Tanzanian workers, managers and government officials have become more inefficient or more slothful than before. The simple point is that Tanzania like most other world countries has always had its usual share of inefficiency and ineptitude (which is often another way of saying that the country is at a low level of economic development); there is, however, no evidence that these adverse factors have become *more* intense since 1979,leading to the economic crisis.

Two, it is worth looking beyond Tanzania and the developing countries to appreciate the futility of the IMFs general argument on this issue. Not just the third world, but the advanced countries have also experienced a large trend decline in their long-terms rate of growth since 1973 or 1979. The rates of unemployment in the OECD countries are at their highest level for fifty years. Is this due to inefficient or inept macro or micro management in each of these economies? Did the super-efficient Germans suddenly become inefficient after 1973 or 1979 for their economy to have suffered such a large reduction in its rate of expansion? Economic logic and evidence are more in accord with the alternative hypothesis that the German economic slow-down was also due to the world economic crisis over which *no single* country (except to some degree the U.S. which alone accounts for nearly a third of OECD output) has any appreciable control. To the extent that the world economic crisis is due to the deficiencies in the international trading and monetary arrangements *(10)* – precisely an area where the IMF has the major responsibility – the uncharitable might say that the IMFs argument amounts to shifting onto others the blame for its own 'mismanagement' of the world's monetary and financial institutions.

Be that as it may. The general argument that the Tanzanian economic crisis after 1979 is due to domestic economic mismanagement cannot be accepted. To the extent that there is a specific charge of mismanagement against the country's economic managers or with respect to particular economic policies, that needs to be explicitly stated and then evaluated at its own merits. However, by far the more important point for Tanzania's policy-makers is that although the economic crisis may have been caused by external factors beyond their control, the *solution* to the crisis lies in their own hands. They have to accept the fact that the world economic situation may have changed for the worse not only temporarily but permanently. In the very short-term, because of the U.S. economic recovery (which many people do not expect to last much beyond the U.S. elections in November 1984), the commodity prices will certainly rise. But to the extent there is likely to be a *long-term* deceleration in the rate of growth of the world economy, the adverse movement in the terms of trade which Tanzania has experienced since 1977 will be a permanent feature of the economic landscape. Economic *and* political management in Tanzania thus needs to *improve* to cope with these new realities so that in time the country can resume the path of economic progress which was interrupted in 1979.

2. The external disequilibrium and the budget deficit

As a significant element in the IMF adjustment programme for Tanzania (as well as elsewhere in the third world) is to require a sharp reduction in government budget deficit, the following points deserve special attention:

(i) In analysing budgetary deficits in advanced economies, the OECD and more recently the US Council of Economic Advisers, make a conceptual distinction between a 'cyclical deficit' and a 'structural deficit'. It is recognised that during a cyclical downturn when national production is below capacity, the government tax revenues will inevitably be reduced whilst at the same time government expenditure will be increased because of the need to provide greater employment and social security benefits than before, thus leading to a larger than normal budget deficit. Thus in the case of the US, it is estimated that much of the larger portion of its present deficit of 6 per cent of GDP is of a cyclical nature, but the structural deficit, i.e. the projected deficit at the current tax rates but at normal capacity utilisation, is much smaller, being of the order of 2.5 per cent of GDP. Unfortunately, the IMF in its adjustment programmes in third world countries does not appear to make any such analytical distinctions. For example, in the case of Tanzania, although its present deficit is historically large, at the present very high tax rates, it most likely has a large ***structural surplus*** on the current account of the government budget.

(ii) The second important implication of the foregoing analysis is that although I have argued that the budget deficit in a country like Tanzania is a direct consequence of the balance of payments constraint and a relaxation of that constraint will improve the budgetary position, *the converse unfortunately is not necessarily true.* In other words, it is not the case that a reduction in the budget deficit will automatically improve the external payments position. In some countries it may well do so, but in the circumstances of the Tanzania's economy and its institutional framework, this is most unlikely. There are essentially two reasons for this: (a) Tanzania is a small commodity exporting economy so that it is domestic production rather than domestic prices which determine the level of its export receipts (export prices are set in the international markets and are independent of domestic prices). (b) In Tanzania, the central bank controls the allocation of foreign exchange and imports have already been reduced to their minimum compatible with the existing level of production. In view of (a) and (b) what IMF needs to explain is the precise mechanism whereby they believe that a cut in budget deficit will improve the balance of payments position which as noted earlier is at present the main constraint on domestic production and employment.

IV. – THE IMF PROGRAMME AND THE QUESTION OF LARGE DEVALUATION.

The main outline of the IMF programme for Tanzania was spelled out in Section 1. The centre-piece of this policy package is a large devaluation of the shilling from its present level of 12 shillings to a U.S.

dollar to between 25 shillings to 35 shillings to U.S. dollar, with associated restrictions on fiscal deficit and growth of money supply. The IMF would *inter-alia* also like to see much higher interest rates (from their present level of about 10 per cent to well over 30 per cent), an enormous increase in producer prices for export crops (a 40 per cent increase in real terms), a liberalisation of price controls. In return for the implementation of these policy proposals, the Fund would provide Tanzania with foreign exchange resources in accordance with its normal entitlement.

Although there is disagreement between the Government of Tanzania and the IMF about the exact effects of the IMF programme, both sides agree that these would be far-reaching for all spheres of the economy. As an illustration, one immediate and dramatic effect of these proposals, on Fund's own estimates, would be to raise the price of sembe, the basic staple in Tanzania *from 2/50 shillings to 18 shillings a kilogram*, a seven-fold or so increase *(11)*. As there is evidence from around the world that people have revolted over far smaller increases in the price of basic foods, the Tanzania government is understandably reluctant to accept the Fund's programme without a thorough examination of all its consequences.

As one of the most important differences between the Government of Tanzania and the IMF concerns the question of devaluation – not the principle of devaluation but its extent and timing -- in the earlier paper (SINGH, 1983) I examined in detail the technical issues involved in analysing the effects of devaluation on an economy like that of Tanzania. The paper noted that the most recent economic research on devaluation is very skeptical of its value as an instrument for correcting a fundamental structural disequilibrium of the economy. In general, the arguments against devaluation are particularly strong in a small commodity exporting, and centrally planned economy. This is for the reasons mentioned earlier that such an economy can sell whatever it is able to at internationally determined prices; a devaluation, other things being equal, will not, therefore, increase export receipts. In a centrally planned economy, where the central bank controls the allocation of scarce foreign exchange resources and furthermore where all non-essential imports have already been eliminated, imports will not be discouraged by devaluation. On the other hand, a devaluation will affect income distribution and inflation and may set off a chain reaction of price changes. wage demands and financial instability. As KALDOR (1983) has pointed out, this has precisely been the outcome in many Latin American economies with the IMF inspired devaluation; these countries have often ended up with the same structural balance of payments deficit as before the devaluation except at a much higher rate of inflation and attendant economic and political strife.

This is not to say that a commodity exporting economy should never alter its exchange rate, upward or downward. Despite the general considerations outlined above, a developing commodity exporting country may nevertheless need to change the exchange rate depending on its specific circumstances. Whether or not a change in the exchange rate is required and more importantly the *extent* of the change and its *timing* should rest on an empirical examination of the following kinds of questions:

(1) The size of the net effect on the balance of payments.

(2) The time period over which the effects on exports and imports occur: is it six months, one year or 5 years? Are imports affected earlier than exports?

(3) The certainty of the effects.

(4) The impact on the rate of inflation and income distribution. Again what is the short-term dynamics of these effects? Will the impact on inflation occur sooner than on foreign balance and what will be its implications? Will the first round effects on prices lead to wage changes, further inflation and financial instability, thus nullifying any positive impact which devaluation may have on the foreign balance ?

For reasons given in (SINGH, 1983), answers to every one of these questions, particularly those relating to the short term dynamics involving inflation and income distribution are vitally important in a decision about devaluation. In recommending a large devaluation for Tanzania, the IMF does not, however, provide systematic empirical information on these issues. Instead they base the case for devaluation on the following general arguments:

(1) Devaluation, it is suggested, will have a positive effect on the balance of payments even in the short-term because (a) it will reduce leakages through smuggling; (b) discourage the parallel market in foreign exchange and thus diminish the loss of foreign exchange to the government through that channel; and (c) even though commodity exports may not be increased in the short-term, there will be a favourable impact on the manufacturing balance.

(2) Devaluation, it is believed, will have a long-term favourable effect on the foreign balance.

(3) Both in the short or the long-term it is argued that a devaluation will help to restore the government's budgetary balance.

(4) Devaluation, it is argued, is essential since the rate of inflation in the African countries has been much greater than the world rate of inflation, and there has therefore been an appreciation of the real exchange rate.

A detailed examination of the above arguments in SINGH (1983) showed them to be not at all convincing in the case of Tanzania. In the technical discussions between the Fund and the Tanzania Government officials about the question of devaluation, there has nevertheless been some progress in the last three years. The essential points of difference between the two sides have now narrowed down to two issues (a) the role of producer prices and (b) the effect on the parallel market in foreign exchange.

A comprehensive discussion of these issues lies outside the scope of this paper, but some comments may be in order in each case. The IMF would like an increase of 40 per cent in real producer prices for commodity exporters and a somewhat smaller increase (28 per cent) for food producers in order to encourage greater agricultural production. They believe that a large devaluation of the currency which they recommend (from 12 shillings to 25 or 35 shillings per U.S. dollar) will enable such prices to be paid to the growers without leading to a huge budget deficit. In relation to this view, the following points seem to me to be significant. First, the IMF provide no scientific evidence that in the present state of the Tanzanian economy *overall* agricultural production is likely to be increased by rise in producer prices. Agricultural production and marketable surplus are affected by a large number of factors, including producer prices, weather, availability of inputs, transportation and other organisational and infrastructural facilities. For example, in 1982, there was a fall in production of certain crops despite increase in real producer prices: the main factor being weather. The infrastructural and transportation bottlenecks are far more important constraints on the growth of marketable surplus at present than producer prices. The available econometric evidence for Tanzania does suggest positive response of some *individual* crops to producer price increases, i.e. the *partial* supply elasticities in *certain* cases are positive but there is no such evidence for the *aggregate* elasticity. [See JASPA/ILO (1982)].

Secondly, even to the extent that there is a positive supply response for particular crops, the size of this response is far from being uniform and varies between crops. This point is significant since this suggests that the optimal government policy should be selective subsidies for particular export crops (which amounts *conceptually* to a use of multiple exchange rates) rather than a uniform subsidy implemented by means of a general devaluation. Thirdly, and most importantly, if such a large increase in producer prices as suggested by the Fund is implemented, it will involve an enormous redistribution of income (from the non-food, non-export crop sectors to the food and export crop sectors) which would inevitably cause a huge upsurge in the rate of inflation. The rate of inflation could easily increase from its present level of 30 per cent to well over a hundred per cent. In these circumstances, the Tanzanian government's policy of selective crop subsidies and an overall increase in real producer prices of the order of 5 per cent seems much the more sensible.

With respect to the so-called 'parallel' market in foreign exchange, the IMF's arguments on this issue are entirely a priori and theoretical. There are, however, similar a priori reasons for believing that in the specific conditions of the Tanzanian economy, a large devaluation would have *at best* a marginal effect on curbing the black market, thereby increasing the country's foreign exchange resources. (see further SINGH, 1983).

To sum up, the basic case against the very large devaluation required by the IMF conditionality is that its positive effects on the balance of payments and production in the short to medium term are small and highly uncertain However, the negative effects on inflation and income distribution over the same time horizon, and particularly in the short-term, are large and certain. However, in the first half of 1983, the Tanzanian government devalued the shilling by 20 per cent against the U.S. dollar (as against the IMF demand of over 66 per cent devaluation in terms of local currency and over 300 per cent in terms of foreign currency). In my view there was less of an economic, but much more of a political case for this devaluation. It indicated to the bilateral donors and the international aid community that Tanzania was not opposed to a devaluation as a matter of political principle, but rather had extremely serious pragmatic and empirical objections to the IMF programme.

V. – ALTERNATIVE POLICY OPTIONS AND THE ANALYTIC MATRIX OF THE POLICY PROBLEMATIC

The various strands of the foregoing argument may now be brought together to define more precisely the nature of the macroeconomic problematic before Tanzania's policy makers.

1. The current balance of payments deficits.

The external sector constitutes the main immediate constraint on the economy. The basic arithmetic of Tanzania payments problem is straightforward. Normally speaking, i.e. taking good and bad years together, the country earns approximately $ 500 million p.a. from its exports, largely of coffee, cotton, and other commodities. Its imports of goods and services amount normally to a billion dollars per annum, leaving a current account deficit of $ 500 million.

How is this deficit financed? An obvious answer is by 'foreign aid'. ***However, what is not often realised is that the deficit itself is to a large degree a reflection of the foreign aid the country receives.*** Much of the larger part (about 70 per cent) of the foreign aid is project aid, given for the creation of new productive capacity. This is at one level an extraordinary situation. Here is a country with a crippling foreign exchange constraint, as a consequence of which only a small proportion of its existing productive capacity is being used. Yet foreign exchange continues to be provided for creating *new* capacity rather than helping to increase overall production by greater utilization of existing capacity. A significant implication of this analysis is that if the project aid is eliminated or reduced, Tanzania's current account deficit will be substantially reduced pari passu.

The Tanzanian government has attempted to persuade donors to shift aid from new projects to balance of payments support, but with very limited success. An important reason for this is the deep depression in the capital goods industries in the leading industrial countries. As far as Tanzania is concerned, if the total foreign aid the country presently receives was cut by half, provided it was given in the form of balance of payments support, its immediate impact on the economy would be immensely beneficial as it would *both* substantially increase production and simultaneously reduce the current account deficit. *(12)*

Parenthetically there is another aspect of Tanzania's foreign aid which deserves comment. It is sometimes said in criticism of Tanzania that the country has received more foreign aid per capita than most other countries and yet the economy is in a desparate state. The former statement is probably true in terms of official aid, but not if one includes all capital inflows. Total capital inflows into capitalist oriented countries like Kenya and Ivory Coast have been much greater as these countries are also able to borrow on the private international capital market. In the short to medium term, the private borrowings, being not tied to specific projects, are much more useful to the economy than official aid, which is invariably project aid. However, this can create serious problems in the longer term when interest burden becomes large and debt has to be repaid.

2. *The Debt problem.*

It is particularly important to adopt a comparative international perspective in examining Tanzania's debt problem. A major consequence of the world depression has been an enormous increase in the debt burden of most developing countries. The total outstanding debt of 24 low income African countries (on the World Bank's definition) increased from nearly 5 billion dollars in 1973 to 14 billion dollars in 1978, and to nearly 23 billion dollars by the end of 1982, as table 1 indicates. The latter figure

Table 1: Total Outstanding Debt and Debt Services Ratios in Low Income African Countries and in Tanzania 1973 to 82.

	1973	1975	1977	1978	1979	1980	1981	1982
Total Outstanding Debt (US $ millions)								
Low Income Africa	4,963	7,777	11,638	14,233	17,245	19,826	21,819	22,659
Tanzania	464	798	1,100	1,141	1,193	1,338	1,497	1,632
Debt Service Ratio *(1)*								
Low Income Africa	7.3	9.3	7.7	11.6	11.3	18.0		
Tanzania	7.0	5.9	5.5	6.1	5.6	7.2		

Source: *World Bank (1984).*

(1) Defined as the ratio of total debt service to exports of goods and all services. World Bank (1984) provides debt service ratios for low income African countries and Tanzania on a comparable basis for only up to 1980. However, there is data available for total debt service payments which suggests that between 1980 and 1983 (projected figures) these payments increased nearly three fold both in the case of low income African countries as a whole (from $ 1,053 million in 1983) and of Tanzania (from $ 52 million in 1980 to $118 million in 1983). The Tanzanian debt service ratio for 1983 will therefore still compare favourably with that of low income Africa.

is of course much smaller than that for Mexico or Brazil alone: their outstanding debts are of the order of 90 to 100 billion dollars in each case. Over the period 1973 to 1980, the debt service ratio of the low income African countries increased from 7.3 per cent to 18 per cent.

Within this overall context Tanzania's debt situation is not at all bad. Most of Tanzania's debt is owed to governments or to the national agencies rather than to private banks. As table 1 shows Tanzania's debt service ratio is less than that of the African countries as a whole.

In accordance with the usual convention, the data in table 1 refer basically to medium and long term debt; they do not include short term debt. The reason for omitting short term debt from debt service ratios is that a large part of such debt is often trade credit which is normally rolled over. Most short term debt would be owed to private banks or institutions. However, even with respect to such debt, Tanzania's position again compares very favourably with that of other African economies (see table 2, which is based on the latest available information and analysis of the American Express Bank's economic unit).

Table 2: Debt Owed to Private Banks and Debt Indicators: Tanzania and other African Countries.

	Total debt outstanding	Debt due in 1 Year	Debt due in 1 year net medium (US $ millions)	M-term debt due in 1 year	M-term debt due in 1–2 years	Short-term debt/ total
Africa						
Cameroon	1,046	281	258	22	17	24.8
Congo	805	127	121	6	15	15.0
Gabon	701	170	106	64	44	15.1
Ghana	239	200	169	31	9	70.7
Ivory Coast	3,387	924	780	144	140	23.0
Kenya	770	126	131	85	85	17.0
Madagascar	299	78	62	16	11	20.7
Malawi	202	104	60	44	40	31.6
Nigeria	8,527	3,137	2,777	360	589	32.6
Sudan	1,119	658	603	55	64	53.9
Tanzania	241	72	56	16	20	23.2
Zaïre	873	262	190	72	45	21.8
Zambia	590	383	333	50	56	56.4
Zimbabwe	914	572	541	31	49	59.2

Source: *European Trade Finance Report, September 1983.*

Notes: Column 1: *provides the total outstanding debts of LDCs to banks, covering short-term and medium-term debts.*

Column 2: *indicates the amount due within 12 months (in this case to December 1983), whether such debts relate to maturing medium-term credits or to short-term financings.*

Column 3: *estimates the degree to which repayments due within one year relate solely to short-term credits, rather than maturing amounts of medium-term financings.*

Column 4 and 5: *calculate the amount of medium-term debts to banks falling due within the first 12 month period (to December 1983) and during the second 12 month period (December 1983 to December 1984).*

3. The international context.

The international context is exceptionally unfavourable for Tanzania. It is essentially a small commodity exporting economy, heavily dependent on imports, which finds itself in the midst of a world depression. However, as noted earlier, in view of the expected deceleration in the long run growth of the world economy during the next decade, the adverse movements which Tanzania has experienced in its terms of trade may not simply be a temporary short term set-back, but a more permanent phenomenon. Even though because of the U.S. economic recovery, the world commodity prices will improve in the short term, their longer term outlook cannot be regarded as very favourable in a slow growing world economy.

This perspective on the world economic situation has serious implications for Tanzania's economic policy makers and its political leadership. A deterioration in the terms of trade inevitably means that at least in the short to medium term, the Tanzanian people cannot expect their incomes and standards of living to grow at the same rate as they had become used to until 1979. It is an essential task of political leadership to dampen people's expectations in this regard and to help them to appreciate the new longer terms economic constraints which the country faces.

The Macroeconomic Policy Options

In the light of the above discussion, we may now examine the macroeconomic policy options open to Tanzania's policy makers. The one obvious option is that provided by the IMF, many aspects of which have been examined in some details in earlier sections. The cost and benefits for Tanzania if she were to adopt the IMF programme may now be summarised.

The main benefit to Tanzania would be that it would be able to draw on Fund's resources to the tune of approximately $ 100 million per annum over a period of 3 years (assuming a three year programme). It is, however, argued by the Fund that once a programme has been agreed with them and Tanzania has thereby obtained the Fund's good housekeeping seal of approval, it would be able to obtain substantial additional resources from the private capital market as well as from the official bilateral and other donors.

This assumption is open to serious doubt. First, as far as the private capital market is concerned, it is most unlikely that even with the IMF's housekeeping seal, Tanzania would be able to tap additional funds. This is for two reasons:

(a) Tanzania is a very poor country following a non-capitalist road: and

(b) the international financial markets are at present highly vulnerable and most banks are trying to reduce their exposure in terms of the so-called sovereign debt.

Secondly, in relation to bilateral donors, the hope of more foreign aid from that quarter is also likely to prove unrealistic. This is because in most of these countries public expenditure is being cut and the total available for foreign aid is being reduced. In the foreseeable future Tanzania should therefore count itself lucky if it is able to hold on to its present levels of foreign aid from the bilateral donors.

It is, indeed, true, however, that if an IMF programme is agreed, Tanzania would most likely also be able to obtain a structural loan from the World Bank. All in all, the net addition to Tanzania's foreign exchange resources consequent on an IMF agreement would, therefore, be of the order of $ 150 million per annum. For a country in Tanzania's position with a severe foreign exchange constraint, these additional resources would certainly make a significant contribution to national production and employment. Nevertheless, it is important to recognise that the new resources would be relatively small and would for example be far from adequate to even bring the industrial sector to its normal level of capacity utilization. The IMF programme would not therefore be a panacea which would put the country back on its pre-1979 path of long-term economic growth as some people blithely assume.

Moreover, the benefits of the IMF programmes would have to be balanced against the costs. These costs arising essentially from the large devaluation and reduction of subsidies and cuts in government expenditure – *would be immediate and enormous.* The price of sembe would increase several fold to eighteen shillings a kilogramme. A devaluation of the shilling by a further 60 per cent (to 30 shillings per U.S. dollar after a 20 per cent devaluation in 1983), would raise the rate of inflation to over 100 per cent per annum *(13).* Once an inflation rate reaches that kind of magnitude, it becomes extremely difficult to claw it back to a lower level as the Latin American experience demonstrates. Even if Tanzania's political system and political institutions which have a proven record of being stronger than those of most African countries, can survive the 600 per cent or greater increase in the price of sembe, the damage to these institutions would clearly be substantial. An essential reason for the strength of these institutions has precisely been the determination of the Tanzania leadership to follow an independent national path, based on egalitarian socialist principles, and not to bow to the capitalist oriented adjustment path ordained by the IMF. A capitulation to the IMF would, therefore, have very serious repercussions for the political system and hence for its ability to manage the economy.

Is there life without the IMF: Alternative Adjustment Paths:

The above discussion raises the central question that if Tanzania does not accept the IMF programme, is there a feasible alternative? The answer in the Tanzanian case is fortunately yes; there is indeed life without the IMF and there is more than one viable adjustment path for the economy.

One of these alternative paths is that which the Tanzanian government has already been following for the last three years, without any assistance from the IMF. During this period, the country has taken a number of measures both for short-term adjustment of the economy as well as adopted policies for longer term changes in the structure of production. The leadership fully recognises that the economy is in fundamental structural disequilibrium in the sense discussed in section II and that there would need to be major changes in the structures of agricultural as well as in industrial production to meet the new realities of the world economy. Hence there has been a decisive shift towards allocation of more resources to agriculture; within agriculture export crops are being emphasised. A number of important institutional changes in the agricultural sector have been set in motion, for example the restoration of cooperatives in an orderly manner *(14)*. As far as short term economic management is concerned, the government has taken significant steps to cut parastatal losses and to keep the fiscal deficit from increasing despite a depressed economy.

As noted in section II, these measures have already borne fruit. The rate of inflation has stabilised, and despite the setback to production in 1982–83, the real economy has been on the mend in 1983–84 and the GDP. growth should be positive for the first time in three years.

The above discussion suggests three important questions about the government's current adjustment policies programmes:

(a) in what respects are they different from the IMF proposals;
(b) to what extent are they based on the availability of foreign resources:
(c) how long can they be expected to last and how long would it be before steady growth would be possible again. These questions will be taken in turn.

With respect to (a), it will be appreciated that many of the steps which the Tanzania government has taken to correct the structural disequilibrium of the economy are in the same direction as those recommended by the IMF. There are, however, *two crucial differences: the first is the speed of adjustment and the second concerns who bears the burden of adjustment.* The overwhelming importance of the speed of adjustment in the present situation cannot be exaggerated. The Tanzanian government has moved at slow and deliberate speed to correct the economic disequilibrium whilst maintaining the integrity of the country's system and institutions. For example, the government has agreed to increase real producer prices by 5 per cent instead of the 40 per cent recommended by the Fund as that latter figure would involve such a gigantic redistribution of income within the society as to be politically unfeasible and hence self-defeating. Another major example concerns the price of sembe – the basic staple. The Government is understandably reluctant to change significantly the price of sembe which has remained at 2.5 shillings per kg during 1983 despite a 20 per cent devaluation of the shilling *(15)*. Under the IMF programme, however, the price of sembe would need to increase to eighteen shillings per kg.

Any neutral observer can see that no government in the world – even a Pinochet with all the guns trained on the people – could survive such an enormous increase in the price of the basic staple. In that sense the IMF programme amounts to saying that they wish to see a rather different government in Tanzania.

Similarly, in relation to who bears the burden of adjustment, under the IMF programme, this burden would be borne disproportionately by the workers and poorer sections of the society (by removal of food subsidies, cuts in government expenditure etc). The government's own adjustment policies inevitably have their costs as well, but these are relatively much more equally shared by all sections of the society (through the system of taxation).

As for the dependence on foreign aid, the government's adjustment programme is being carried out without any assistance from the IMF and the World Bank but entirely on the basis of the *normal* amount of foreign aid from bilateral donors. If this aid continues, there is no reason why the government should not be able to successfully carry out its economic adjustment policies over the medium term. In the short to medium term, the Tanzania people should not expect to see any significant increase in per capita incomes. However over a longer time span, the prospects for the economy must be regarded as good as by then both agriculture and industry would be put on a sounder, more viable footing. In a country like Tanzania, there is an enormous scope for increasing agricultural productivity through technological improvements. Similarly, having learnt the lessons of the past, and with a better trained and skilled work force, it would be possible to create an industrial structure which is less import-dependent and which is not a net user of foreign exchange. However, these desirable changes can only come with time after the economy has successfully carried out its short and medium term adjustment targets.

The Worst Case Option

Finally, for the sake of completeness and as a thought experiment, it is also useful to consider the worst case option. Suppose the bilateral donors, despite what is said above and despite the recent events in Tunisia or Nigeria, tell the Tanzania government that they would not provide it with any economic assistance unless it accepts the IMF programme. Can the government carry out an adjustment programme without the IMF and the World Bank as well as the bilateral donors?

The answer to this question must also again in principle be yes. This is in part because as noted earlier, the larger part of the present foreign aid is project aid. If all aid is cut, it would essentially mean that the country would need to live within its normal export earnings of $ 500 million per annum. Tanzania's fuel bill is about $ 350 million p.a., and as a war economy, the nation could in principle survive by limiting its imports to export earnings. It would inevitably mean much greater austerity and the curtailment of most development projects for a considerable time, but if there is determined political leadership, economic adjustment over a longer period is far from impossible.

But, hopefully, it would not come to this. The donor countries, particularly the smaller North European nations, have a huge responsibility at the present time. Over the last twenty years, the North Europeans have had a very creditable record in providing development assistance to third world countries and in being concerned with meeting the basic needs of the poorest people in these countries. Today, with the economic crisis, the achievements which many Third World countries had made in the past in meeting the minimum basic needs of their poor people are in serious jeopardy, most of all because of the IMF's adjustment programmes themselves. As a result of fiscal austerity and large devaluation which most IMF programmes include, the basic needs of the poorest are the first casualty. Consequently, the IMF Programmes instead of leading to economic adjustment, have often produced prolonged periods of political instability. The North European countries should use their good offices and any influence, admittedly very small, which they may have with the IMF to persuade that organization to permit countries like Tanzania, which have a stable political system, to carry out the difficult task of economic adjustment at their own deliberate and politically feasible speed.

VI. – CONCLUSIONS

This paper has been concerned with elucidating and commenting on the major points of disagreement between the International Monetary Fund and Tanzania, and with setting out the analytics of the alternative macroeconomic policy options for the Tanzanian economy. It has been argued in this paper that the policies being recommended by the IMF to deal with the economic crisis are not the only ones which are feasible. They are also not the most appropriate ones for correcting the fundamental structural disequilibrium of an economy like Tanzania's. There are strong grounds for believing that such policies are likely to worsen the economic and social situation rather than to improve it. Further, even to the extent that these policies succeed, the price of adjustment will tend to be paid disproportionately by wage earners and other lower income groups.

It is also not difficult to see that although the arguments are couched in technical terms, the IMF is using the present economic crisis to push Tanzania towards market-oriented, non-socialist development, in return for which the Fund would provide some economic assistance. The alternative path before that country is to attempt to solve its grave economic crisis within the framework of its existing economic and political institutions but without the Fund/World Bank assistance. In view of the seriousness of the economic situation, the latter path is extremely difficult, particularly in the short run, but it is very far from being an unviable one. On the contrary, it is the only one which will preserve the integrity of the country's political system and is also therefore more likely to succeed in its economic objectives.

Finally a word about the protracted negotiations between the Fund and Tanzania. My own view is that the gap between the two sides is so wide that these negotiations are extremely unlikely to succeed. In technical terms the central point of disagreement is about devaluation; however, in practical terms the issue is the price of sembe, the basic staple. Even if the Fund were to soften its conditionality concerning devaluation from 30 shillings to 20 shillings per U.S. dollar (which in itself is very unlikely), it would still lead to a tripling or quadrupling of the price of sembe which does not seem to me to be politically feasible. This fundamental tentacle needs to be grasped by those in the international circles who are still hopeful of a settlement between the Government of Tanzania and the IMF.

FOOTNOTES

1. For a fuller discussion of the effects of the present world economic crisis on different types of economies, and particularly the low income African countries, see my paper, (SINGH, 1983a).

1a. The source of statistics quoted in this paragraph is United Republic of Tanzania (1983).

2. For the IMF's own analysis of the 'success' of their African adjustment programmes, see IMF (1983). For a contrary view, see HELLEINER (1983).

3. A low conditionality standby arrangement between Tanzania and the IMF was concluded in September 1980, but was soon abandoned.

4. See, For example, TAYLOR (1983); DORNBUSH (1982); KRUGMAN and TAYLOR (1978); KATSELI and MARION (1982).

5. The IMF apparently disputes these inflation statistics on the argument that these are official figures which do not include the blackmarket prices. It believes that the rate of inflation in 1983 was of the order of 50 per cent. However, the IMF does not explain how it arrives at its higher inflation estimate: what is the methodology used and what statistical series of price increases for individual items are being employed ?

   Several observations are in order here. First, the government's consumer price index includes both controlled and uncontrolled items: the former are a very small proportion of the total. For example, 90 per cent of the household items such as furniture or shoes are uncontrolled.* Similarly, as far as one knows, there is no blackmarket in public utilities such as electricity, or in house rents which are fixed. Secondly, if blackmarket prices of the controlled items are to be included in the consumer price index there are important methodological problems which need to be clarified. How large is the blackmarket: is it a thin market or heavily traded. Then, there is the important empirical question: has the size of the blackmarket increased over time and how is that to be measured. Thirdly, there are methodological problems arising from the fact that some goods which were formerly available may no longer be available at all because of economic stringency. Is the rate of increase of prices of such items to be regarded as infinity? Whatever the answers to these methodological questions – and the IMF reveal neither its methods nor its sources – the important policy question in the context of the discussion in the text is whether or not there has been an increase in the rate of inflation during the last three years. Even if one were to grant that the rate of price inflation in the base year may be somewhat understated because of the inclusion of the controlled items, there is little evidence that this rate has *increased* over time. Over time, the number of controlled items has significantly fallen and there is no evidence that the blackmarket has grown: if anything, because of the 'crackdown' of early 1983, it has diminished. However, after June 1983, one would expect a somewhat higher rate of inflation than before because of the 20 per cent devaluation of the shilling which the government instituted. The question of devaluation and its effects is discussed further in Section IV.

6. As HELLEINER (1983) rightly points out, these statistics understate the loss suffered by the developing countries since these countries typically pay more for their imported manufactures than is reflected in the average export unit values of developed countries manufactured exports. For example, manufactured goods imported by the African countries on credit have been subject to special surcharges, which are not represented in these data.

7. Historically, Tanzania has not found it difficult to finance a payments gap of 5 per cent of G.D.P. from foreign capital flows. See further, SINGH (1983).

8. It is important to note that the Tanzanian economy is currently operating at a level of imports *25 per cent below the volumes of 1970.*

9. This fact is strangely enough even acknowledged by the *Economist* (June 11, 1983) in an otherwise vitriolic article, «Tanzania's Socialist Safari is Lost in the Bush'. See also the *Daily News*, August 1983, which reproduces comparative international data from the *World Development Report, 1983.*
10. For a fuller analysis of these issues, see SINGH (1983b).
11. This is essentially a consequence of the large devaluation and the removal of consumer subsidies.
12. This aid need not be unconditional; it could be tied to performance with respect to capacity utilisation and production in specific industries or sectors.
13. Although the Fund agrees with the above figure for the price of sembe consequent upon the implementation of the IMF programme, it puts forward a much lower figure (of the order of 50 per cent) for the rate of inflation. However, no reasons are given and no justification is provided for arriving at this lower figure. Most Tanzanian economists expect the higher figure in the text in view of the price formation framework and circumstances of the Tanzania economy. The country imports both food and fuel; a devaluation to 30 shillings will therefore have an immediate devastating effect on the prices of these commodities which will then feed into other prices in the rest of the economy. It should also be observed that the positive effects of the IMF programme on production and employment, noted in the text, do not come from either the large devaluation or the reduction of fiscal deficit: rather they arise entirely from the net injection of $ 150 million in foreign exchange into the economy. The reader may wish to refer to the earlier discussion of these issues in Sections III and IV.
14. For a fuller account of these measures, see the Government's Structural Adjustment Programme and the semi-annual Economic Reviews.
15. The Government has under consideration plans to raise the price of sembe to 3 or 3.5 shillings per kg but as a part of a scheme to rationalise the prices of different varieties of food staples. It is proposed that the increase in the price of sembe is simultaneously accompanied by a reduction in the price of cassava flour from approximately 4 shillings to 2.5 shillings per kg by according it greater subsidy. This would be a much more rational price structure as some of the maize has to be imported whilst cassava is entirely produced in the country.

REFERENCES

Dornbush, R. (1982), 'Stabilization policies in developing countries: what have we learned', *World Development*, Vol. 10, NO. 9.

Helleiner, G.K. (1983), *The IMF and Africa in the 1980's,* Essays in International Finance, Princeton.

IMF (1983), *IMF Survey*, 22 August.

IMF (1983a), *World Economic Outlook*, Washington, D.C.

JASPA/ILO (1982), *Tanzania: Basic Needs in Danger*, Addis Ababa.

Kaldor, N. (1983), 'Devaluation and Adjustment in Developing Countries', *Finance and Development,* June.

Katseli, L.T. and Marion, N.P. (1982), 'Adjustment to variations in prices of imported inputs: the role of economic structure' *Weltwirtschaftliches Archiv.*

Krugman, P. and Taylor, L. (1978), 'Contractionary effects of devaluation', *Journal of International Economics,* Vol. 8, August.

Singh A. (1983), *The present crisis of the Tanzanian economy: notes on the economics and politics of devaluation,* Cambridge, *Dept. of Applied Economics, mimeo.*

Singh, A. (1983a), *The present crisis of the world economy and national and rural development in Africa'*, Paper presented at the ILO/FAO Workshop on transformation agrarian systems in centrally planned economies of Africa, Arusha.

Singh, A. (1983b), 'Third World Industrialisation: Industrial Strategies and Policies in the 1980's and 1990's', A paper presented to the High Level Expert Group Meeting on Industrial Development Strategies and Policies for Developing Countries, organised by UNIDO and the Govt. of Peru, Lima, April.

Taylor, L.C. (1982), 'Back to basics theory for rhetoric in the North-South round'. *World Development,* Vol. 10.

United Republic of Tanzania (1983), *Speech by the Minister of State for Planning and Economic Affairs when presenting the Economic Survey for 1982/83 and the Annual Plan for 1982/84 to the National Assembly, Dar es Salaam, the Government Printer.*

World Bank (1983), *World Development Report 1983,* Washington, D.C.

World Bank, (1984), *World Debt Tables, 1983–84 edition,* Washington D.C.

RESUME

La crise économique qui secoue actuellement tous les pays, développés comme sous-développés, a néanmoins des conséquences plus sévères pour les pays sous-développés. Dans ce contexte de crise généralisée, le FMI auquel la plupart de ces pays ont recours, appliquent invariablement les mêmes remèdes.

Dans cet article l'auteur se livre à une analyse du cas de la Tanzanie avec la double préoccupation d'élucider et de commenter quelques-uns des grands points de désaccord entre le FMI et la Tanzanie, puis de suggérer les fondements des options alternatives de politiques macro-économiques. L'auteur note d'abord que la crise économique que traverse la Tanzanie n'est pas uniquement le résultat d'un manque momentané de liquidités pour les besoins du commerce extérieur mais bien celui d'un déséquilibre structurel durable de tout l'appareil de production. Il aborde ensuite le problème de la dévaluation à grande échelle qui constitue à la fois une des principales recommandations du FMI ainsi que la pomme de discorde entre le Fonds et la Tanzanie. Il estime que bien que le principe même de la dévaluation ne soit pas à écarter, son application nécessite quelques précautions à prendre.

En conclusion l'auteur suggère que la seule issue pour sortir de cette crise est d'ignorer les recommandations du FMI. Il estime en effet que la Tanzanie doit résoudre cette crise économique dans le cadre de ses institutions économiques et politiques sans l'assistance du Fonds.