

CAPITALISM IN TANZANIA AND POST ARUSHA DECLARATION (SOCIALIST) POLICIES

A Dilemma of Making an About-turn

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Abstract

For eighteen years Tanzania adopted the Arusha Declaration as the economic development policy, a model that sought to develop the country along a socialist path. In response to a serious economic crisis that caused enormous suffering for the local population, due to the scarcity of consumer goods, balance of payment problems and the debt crisis experienced in the 1980's, socialism was quiteely abandoned. The purpose of this paper is to query whether the rush to implement capitalism may have similar negative consequences?

Introduction

In 1967 Tanzania as one of the countries that belong to the twenty five least developed countries of the world, adopted the Arusha Declaration as the economic development policy, a model that sought to develop the country along a socialist path¹. Eighteen years later, this policy was abandoned, although unofficially when the country embarked on a three year Economic Recovery Programme (ERP). This move was made in an attempt to get the economy out of a ditch which had caused enormous suffering for the local population, due to the scarcity of consumer goods. Cheap items such as soap, toilet paper, light bulbs, sugar and transportation were in short supply². Economic incentives such as producer prices were so low that individual farmers reduced production of both cash crops and food crops. The formation of parastatals which relied on government subsidy further burdened the economy causing the country to degenerate, as lack of foreign currency reserves made the importation of spare parts difficult. The industry's share of GDP fell as industries were producing below capacity³. Many different reasons have been suggested as the causes for the economic crisis in which Tanzania currently finds itself. The purpose of this paper is to look beyond these reasons and examine the dangers of adopting capitalism wholesale. The failure to

implement socialism, and the about-turn of discarding almost everything, while retaining the same actors who led the country into an economic decline, requires a careful analysis. Many people were severely and negatively impacted due to the rush to implement socialism. Can the rush to implement capitalism have similar consequences?

The current State of the Economy

As 1997 draws to the end, the final tally shows that the Tanzanian economy exhibit signs of low inflation at 16 percent from nearly 30 percent a year ago due to a slower growth in money supply, as a result of tight monetary and fiscal policies, adopted at the beginning of 1996⁴. Improvement has also been noticed in agricultural productivity due to relatively higher domestic producer prices, offered by middlemen who pay farmers on the spot, in contrast to cooperatives, which failed to pay farmers and instead only issued promissory notes, which in some instances were never honored. The country is experiencing declines in food production due to the persistence of drought. The shortfall being felt in some regions has compelled the government to establish a food security program, whose objective is focused mainly on ensuring food self-sufficiency by providing for areas hard hit by the drought, without disturbing local markets. Unemployment, underemployment and the

monetary squeeze due to the government's devotion to pay external debt at the expense of internal debt have slowed down economic growth. The business community is worried about the impact of the tight monetary and fiscal policies which have failed to jump start the economy. While the monetary policy stance aims at reducing inflation in order to create an environment for increased savings, stable price and investments, however, high interest rates makes such a policy unachievable. It is obvious that financial repression continues despite the liberalization and privatization policies, because banks have not adequately increased lending to finance productive private sector investments from the given volume of deposits. Hence, the pace of private sector investment is very slow. Customers are cautious and spend only in areas where they feel a crunch. Equally important, is the neglect of the rural economy which lacks a defined policy alternative intended to benefit farmers and peasants who need to be exposed to the benefits of liberalization and privatization policies.

The manufacturing sector continue to suffer from shortages of raw material, electricity and competition from imported finished goods following trade liberalization, which have actually turned the country into a dumping ground for cheap commodities including second hand clothes, shoes and household items⁵. The policy of allowing own funded imports that begun in 1984, whereby the importer is authorized to use foreign exchange from unofficial sources to import a wide range of commodities now account for over a half of total imports. The range of commodities allowed under the scheme include intermediate goods and a number of capital goods, spare parts and building materials as well as consumer goods. This policy succeeded to dismantle the elaborate system of quantitative restriction. The own fund import policy exposed the industrial sector virtually overnight to a trade regime in which levels of protection fell dramatically⁶. While this policy or scheme increased external competition for the domestic industrial sector, it is also responsible for what may turn out to be the death nail on a coffin of import substitution industrialization policy in

Tanzania. It makes this author wonder where the job market is going to come from and who is going to absorb the young people graduating from school? Not only that, but also can foreign investors replace the industries that had already been established and have been left to crumble?

Real per capita income is lower, while transportation, despite promises of rehabilitation of major trunk roads, remain dilapidated and desperately in need of repair. People traveling to Mara, Mwanza, and Shinyanga region from Dar es salaam find it conveniently cheaper to travel through Nairobi, than risk traveling on the road between Dodoma, Tabora and Mwanza. The road from Mwanza to Bukoba or Mwanza to Musoma etc. could help improve and contribute to economic development in those regions, if they were properly constructed. Roads in towns in most of the regions have been neglected causing dust to soil buildings, pedestrians and leading to a higher rate of depreciation for vehicles due to potholes, for example Morogoro and Mwanza, etc. Telephone services continue to remain a luxury and not a necessity for those who need them. The economy cannot provide for basic needs such as education, health care and special food programs. It has become an acceptable form of existence to find hospitals with no medicines, schools with no textbooks, and roads full of potholes. How can an economy grow that neglects to invest in the most critical sectors of the economy that can make a difference such as the infrastructure?

Privatization

According to Foldvary (1994), marketization consists of two elements, legal precondition and transfer of enterprises from government controls to the market process. Reliance on marketization, thus includes liberalization and privatization. Privatization refers to the transfer of property, provision and operations from government to private owners. Even when government still provides some services, its production is contracted out to private enterprise⁷. Liberalization eliminates price controls, provides greater scope and incentives to private enterprise and investment. Tax and regulatory reforms are

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tied to privatization. Liberalization therefore is the privatization of individual wealth and action. Privatization in Tanzania was established in 1992 by the Presidential Parastatal Sector Reform Commission (PSRC) to preside over the divesting process of the parastatal sector through either joint venture, outright sale of assets or shares, management buyout, performance contracts and leasing of assets or liquidation. PSRC's objectives include improvement and elimination of government subsidy for parastatals⁸

The first decision to privatize occurred in 1987 when butchery trade in Dar es Salaam was divested from state control due to poor performance. Therefore, there were expectations that PSRC would privatize parastatals by empowering the local private sector to exercise financial control, hence developing local capitalism.

The implementation of privatization however, appear to have taken a form of a venture for the government to raise money rather than to promote local private ownership aimed at keeping the economy in the hands of indigenous people, whom in the final analysis are most responsible for the development of the country. The adoption of socialism earlier rejected economic dependency and the notion of local capitalists becoming junior partners of external capitalists. What caused the same actors to renounce socialism quietly and make a U turn to accept capitalism and economic dependency?

Towards the end of 1997 about 142 parastatals will have been divested out of a total of 380 parastatals. Between 1985 and 1989 the parastatal sector received from government in excess of 1.5 billion of loans or subsidy per annum on the average. During the same period the balance of loans outstanding was in excess of Tshs. 88 billion. Towards the end of 1996 the government raised some \$85 million from the divestiture of 43 companies. Curiously enough, a significant amount was raised from two sources, Tanga cement and the Tanzania Cigarette Company accounting for \$68 million. Tanzania Breweries Limited went into a 50/50 shareholding with INDOL International of South Africa, which

so far has been rated as a success story⁹. While the argument that no private investors can invest in a losing venture, it is quite probable that the speed with which PSRC embarked on its privatization mission may in the long-run prove to be more costly than beneficial, in so far as the overall goal of the import-substitution industrialization policy was concerned. For example, why abandon Mwadui mine and work out a deal of 75% for South Africa's De beers Diamond Mining Consolidated and retain only 25%?

Acceptance of IMF and World Bank Conditions

Before the adoption of the Arusha Declaration in 1967, Tanzania had through legislative measures passed laws which aimed at attracting foreign investment into the country. It proved difficult to attract it adequately because little foreign investments and capital existed in Tanzania at the time of nationalization. The establishment of the Investment Promotion Center (IPC) in 1992 along with the passage of laws that provide tax shelters for foreign investors, todate, no one can claim that such moves have attracted adequate investments into the country.

As a matter of fact, socialism seemed to offer the hope needed at that desperate time in order to create a base for rapid economic development¹⁰. The implementation of socialism in Tanzania never went beyond the practice of state capitalism, or state capital accumulation for the purpose of investment and industrialization. Mismanagement of state capitalism was responsible for the introduction of capitalism. It is probable that the adoption of a three year Economic Recovery Programme 1986-1989 never meant that the actors in any way shared the IMF and World Bank's view, but were forced to carry out reforms sorely because they needed foreign resources, and could acquire it only by reaching agreements with the World Bank and the International Monetary Fund¹¹.

The 1980's debt Crisis

The 1980's debt crisis and the absence of bankruptcy laws in international debt contracts led Tanzania, as was the case with most of the less developed countries into the wholesale acceptance IMF and World Bank conditions¹². An important part of IMF tasks consist of granting credit for countries that have (temporary) problems concerning their balance of payments. The basic credit facility aimed at solving short-term problems, concerning the balance of payments, consist of an unconditional possibility to borrow, the reserve tranche, and four credit tranches. The credit from basic credit facilities requires that a country will borrow by exchanging its domestic currencies or SDRs. This is also known as drawing on the IMF. The extended fund facility (EFF) has been designed to benefit countries with structural imbalances in production and trade. The compensatory and contingencies financing facility (CCFF) aims at supporting member states that have difficulties with respect to their balance of payments due to temporary fall in revenues for exports. These are mainly countries which export raw materials and which are faced with setbacks in exports due to factors external to the country. Countries can also borrow to pay for large cost increase in corn imports¹³. Tanzania has been a recipient of such loans largely due to the domestic mismanagement of her economy, although external factors have also contributed to the worsening of the balance payments problem. Internal causes reveal a manifestation of the collapse of morality and work ethic, which unless addressed, the chances of ever getting out of the economic ditch are very slim. It is incumbent upon those who are responsible for making decisions which affect the lives of the masses to set an example, and establish institutions that promote accountability and responsibility.

Internal Causes

Tanzania suffers from internal immiserization process, which is a process of attempting to live beyond a nation's means by spending in excess of revenues. Deficit spending in Tanzania is caused by waste and mismanagement which continues unabated. While efforts are made to

collect taxes, the revenues generated go for payment of foreign debt. Considering the size of debt estimated at over \$7000 million¹⁴, the question remains that of determining when the government will get out of the immiserization process.

To make matters worse, there appears to continue a habit of rhetoric and empty promises of building the infrastructure, but in reality the condition continue to worsen. Lack of maintenance of buildings, roads, schools, hospitals, clinics, electricity shortages, bureaucratic inefficiency and red-tape are all weakness within Tanzania's institutional structure contributing to lack of accountability and the immiserization process. Terms of trade defined as price of exports over the price of imports, have not been kind. Overall, price of agricultural products exported by Tanzania has fallen relative to prices paid by Tanzania for industrial imports. Worldwide, agricultural terms of trade have gradually declined because of rapid gains in productivity of agriculture than other industries and from slow growth in demand for agricultural goods and fiber¹⁵.

Corruption

Corruption goes with power and therefore the systems in Tanzania makes corruption easy and profitable. The reason for Tanzania's unique structure may be attributed to low wages and high cost of living, inflation and at one time scarcity of consumer goods, but above all, it is a convenient and an easy way for self-enrichment at the expense of the state and the masses. The severe economic difficulties the nation faced in the early 1970's forced the government to take a number of political, legal and economic measures to enable ordinary citizens to obtain essential needs at reasonable prices. The scarcity of commodities resulted in inflationary pressures in the economy and the whole distribution system which was disrupted by a few people seeking self-aggrandizement. Businessmen befriended leaders in order to circumvent the legal system for private gain¹⁶. The erosion of the integrity of leaders undermined discipline, work ethics and morality. It is quite evident that in order to rid the country

of corruption, the fight must begin by prosecuting corrupt leaders in the top leadership ranks. Furthermore, it is necessary to prosecute those who indulge in corrupt practices at all levels of governance as well as those in administration positions which are susceptible to corruption. However, considering the lack of political will and the managerial weakness of state organs, can the problem of corruption be tackled?

Adequate preparation of the people

There is widespread fear that the road to capitalism is going to be painful, in particular for the masses. China for example has adopted forms of capitalism which has enabled the economy to grow at 11 percent per annum. The actors in China were careful not to disrupt and destroy what had been gained during the establishment of communism in that country. They have attempted to develop a mixed economy and have performed well. To the contrary, Tanzania abruptly adopted capitalism as if it is a perfect system and everything socialist was wrong or bad. In order to re-establish a market structure sufficient education is needed. Do local businessmen understand the rules of the game and their property rights? Capitalism is an economic system in which most property (land and capital) is privately owned. In such an economy, private markets are the primary vehicles used to allocate resources and generate incomes. Looking at Tanzania today, state capitalism failed, will the local population succeed and compete internationally or is Tanzania on the road to becoming a neo-colony where most of the major means of production will be foreign-owned or dominated? It is obvious that privatization is more of a political exercise than a financial one because it is basically reallocating power and surrendering parastatals without empowering the local population. No wonder since the break-up of the National Bank of Commerce (NBC) into smaller banks, most private banks so far have been established in Dar es salaam, Mwanza and Arusha only, as if those regions constitutes Tanzania. What's likely to happen to the rest of the country?

Recommendations

Reviving Tanzania's economy is necessary and should be initiated in order to arrest the socio-economic decline currently in motion. Management and maintenance should be emphasized with a scheme of providing incentives to those who prove to be competent.

Education for the population regarding the adoption of free enterprise is critical in order to provide businessmen and women with the knowledge about capitalism. Otherwise they will be vulnerable and incapable of competing with foreigners.

It is important to beef up the Micro Financing Bank and establish credit for the local people, while observing the traditional values, because credit always existed even in traditional societies. The tax structure needs to be simplified in order to reduce the bottlenecks which exist in the present structure. The monetary policy needs to adopt a system, which is more flexible and hence able to fine tune the economy as the need arises. An advisory team equivalent to a Presidential economics council of advisers who freely discuss policies and provide critical inputs would help tremendously in shaping policies which are practical and implementable.

Curbing inflation must remain the major objective for the Bank of Tanzania. A strong government role is required in providing infrastructure and human resources development (schooling and health programs), investing in agricultural research and extension, protecting natural resources from wanton exploitation, and targeting food to the most needy.

A balanced central government budget must restrict borrowing to high-pay off long term capital improvement and use monetary and fiscal policies to fight inflation. Promote parastatals into locally privately owned enterprises and retain industries rather than allowing them to die.

Strengthen social services particularly education, health care, communication, transportation, electricity and water supply must

take top priority. Provide incentives to farmers including attractive prices and reliable transportation facilities. Promote small rural enterprises, which can help the linkage of business activities in rural areas. Reorganize salary scales and commodity prices in order to stabilize the economy. Stable prices and adequate salaries which factor in inflation can reduce corruption and lack of accountability which is caused by low wages, hence to survive government employees resort to other sources for income, sometimes neglecting duty, while seeking extra activities to subsidize their incomes. Provide incentives for local experts who are in the country and those overseas, in order to involve their energies to participate in national building.

Conclusion

Capitalism relies on the interaction of supply and demand within markets. The privatization process made so far has been without preparation. Retraining the local population is essential in order to succeed. Without training people and providing them with loans, the economy is apt to be foreign dominated and controlled. A stable economic environment requires an infrastructure which can enable individuals to undertake their private endeavors without any hindrance. Science must be used to bring nature under control, rather than to continue believing that local people are condemned to eternal poverty while inhabiting a land which has plenty of natural resources. The conventional wisdom in much of economics favors the establishment of well defined private property rights in resources, as a way of reducing uncertainty in interaction and inducing individuals to husband resources carefully and to internalize externalities. It is important and necessary to move away from patronization, nepotism and destructive practices of corruption. It is necessary to develop an institutional framework and structure which will be market friendly for the private enterprises rather than rhetorical. The transition to capitalism is going to be rather painful, and without political intervention may punish the have-nots at the expense of the haves. The general effect of neglecting certain individuals may create tensions which can bring considerable misery and increase

inequality, due to the disparity in magnitude, providing others with the type of arrogance that may deny others equal opportunity. Employment opportunities is a right for everyone, and so is equality before the law. The creation of employment will require a national will, in order to build Tanzania's economy. What needs to be emphasized is not ideology, but how it is implemented. A beautiful doctrine if not implemented will remain on the papers where it is written, and can never make a difference in any person's life.

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TANZANIA CASH CROP PRODUCTION, 1961 - 1994**(Thousands of Metric Tons)**

Year	Coffee	Cotton	Sisal	Cashewnuts	Tea	Tobacco	Pyrethrum
1961	24.9	30.2	200.9	40.0	3.2	0.5	1.4
1962	25.7	33.0	219.5	59.0	4.0	0.4	1.9
1963	28.7	48.6	214.4	41.5	4.0	0.4	2.3
1964	33.8	45.2	203.9	56.7	4.5	0.2	2.3
1965	34.2	56.2	210.2	64.6	4.3	1.7	3.7
1966	52.0	86.2	198.9	83.3	6.8	5.1	4.4
1967	40.3	60.8	204.4	84.3	7.2	7.8	6.7
1968	51.5	62.9	186.1	117.6	8.0	7.3	4.8
1969	46.1	56.8	171.9	113.5	8.8	11.6	3.9
1970	49.7	60.6	160.8	111.2	8.5	11.1	2.3
1971	46.7	54.5	133.1	107.3	9.2	12.0	2.7
1972	46.7	64.5	133.4	113.8	11.6	13.1	4.3
1973	52.4	60.0	93.6	125.4	13.3	12.7	4.0
1974	47.5	49.1	105.6	145.1	12.3	18.3	3.3
1975	42.3	39.1	91.5	119.0	13.9	14.2	4.7
1976	53.1	57.6	68.5	83.7	15.0	17.9	3.9
1977	54.2	40.4	68.5	97.6	15.2	18.3	1.3
1978	48.7	47.0	81.1	68.4	18.3	17.1	2.9
1979	49.6	60.5	77.7	57.1	17.5	17.3	1.6
1980	50.0	58.4	81.1	41.5	17.3	16.7	1.6
1981	66.4	53.8	88.0	60.0	16.3	15.9	2.0
1982	54.8	44.2	73.7	44.2	15.5	13.6	1.0
1983	53.8	42.9	60.0	32.5	17.5	13.6	1.6
1984	50.0	141.0	38.0	48.0	73.0	11.0	1.4
1985	49.0	155.0	32.0	33.0	77.0	13.3	1.5
1986	55.0	106.0	30.0	18.9	71.0	12.5	1.4
1987	-	213.10	-	16.50	15.9	11.6	1.20
1988	15.8	191.7	33.3	19.3	20.2	11.0	1.3
1989	53.5	112.9	32.3	17.1	18.1	11.8	1.6
1990	45.3	141.0	33.7	29.2	19.5	16.2	1.7
1991	48.0	266.9	36.0	42.4	21.1	24.3	2.4
1992	59.6	308.2	24.3	39.2	22.5	26.8	2.0
1993	34.2	148.9	29.6	46.6	2.0	22.6	05
1994	40.1	126.2	30.5	65.0	-	-	1.6

Source: World Bank, July 1994, Tanzania Agriculture Sector Memorandum report No. 12294-TA

TANZANIA FOOD PRODUCTION, 1967 - 1993

(Thousands of Tons)

Year	Maize	Rice	Cassava	Millet	Sorghum	Beans
1967	112.9	23.5	-	-	-	-
1968	127.5	5.1	-	-	-	-
1969	127.5	4.2	-	-	-	-
1970	278.3	59.8	-	-	-	-
1971	186.4	60.8	6.1	-	-	-
1972	43.0	44.6	14.3	9.2	0.6	-
1973	106.4	73.1	18.9	2.4	1.7	-
1974	73.8	59.7	17.8	2.5	2.0	-
1975	23.9	24.6	17.4	2.2	2.9	-
1976	91.1	11.7	19.4	6.4	3.0	7.5
1977	124.0	16.0	19.9	10.8	10.1	11.2
1978	213.0	24.6	36.9	39.2	33.6	30.7
1979	220.0	26.9	63.8	39.9	58.6	27.9
1980	161.5	44.8	44.0	16.8	21.7	35.2
1981	104.6	44.8	7.5	1.4	18.9	16.2
1982	90.0	23.0	9.9	0.3	10.7	12.3
1983	83.3	32.1	18.6	0.1	4.5	16.2
1984	70.9	33.9	30.7	0.6	5.5	12.3
1985	90.0	18.7	19.9	0.3	2.4	11.3
1986	178.5	15.5	12.9	-	14.7	
1987	233.9	40.5	17.2			
1988	312.5	46.8	15.6			
1989	244.5	48.1	17.8			
1990	233.2	40.6	17.1			
1991	222.6	25.6	16.9			
1992	224.2	41.7				
1993	181.3	41.2				

Source: Minisstry of Agriculture Report 1992 Comprehensive Food Security Programme