Structural Adjustment and Rural Employment in Tanzania

by

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Introduction and Summary

Like many other economies in SubSaharan Africa, Tanzania has yet to recover from the impact of the dramatic global economic changes of the early 1980s. Coming, as they did, at a time when its economy and society were already under stress, these changes triggered a cumulative economic decline which virtually strangled the economy and eventually threatened the nation's social and political foundations. By the mid1980s the government appeared to be in an impossible position as its continued failure to deal with the economic crisis undermined both its moral authority and its administrative capability. At this point, it finally abandoned its opposition to the market oriented structural adjustment policies advocated by the Fund and the World Bank in a desperate effort to secure external help in dealing with that crisis. In 1984 it laid the basis for an accommodation with the Fund when it substantially devalued the Tanzanian Shilling and removed many domestic food subsidies; by 1986 an orthodox structural adjustment package was officially adopted in the shape of a three year Economic Recovery Program (ERP) to be implemented under the supervision of the Fund and the Bank and with the active support of most bilateral aid donors.

This paper considers the ERP's impact on Tanzania's rural labour force which still constitutes the bulk of the country's working population. Such a rural focus in evaluating the ERP is appropriate for two reasons. Since it is one of the ERP's primary objectives to end the systematic exploitation of rural producers by urban interests the rural economy should be the first to experience the positive effects of this new policy. Equally important is the fact that the overall success of the ERP is critically dependent on its capacity to stimulate a major increase in agricultural production by improving incentives to rural producers. Unfortunately the evidence on both of these issues gives no grounds for optimism.

While the years immediately following the introduction of the ERP did witness a significant economic revival based on rapid agricultural growth, this does not appear to have been primarily due to improved rural incentives resulting from the ERP, nor does it represent the beginning of a higher long term trend rate of growth. In fact this growth spurt has already levelled off and was primarily a reflection of the sector's recovery from the very poor harvests of 1983/84. In effect the sector was returning to its long term trend rate of growth and good rains and some influx of foreign exchange contingent upon the adoption of the ERP the latter apparently a happy 'conditionality' were at least as important as improved rural incentives in bringing it about.

In any case, the empirical evidence does not support the ERP's belief that the deregulation of agricultural marketing would lead to a sustained and systematic increase in producer prices because it would reallocate enormous rents formerly misappropriated by urban interests or consumed by inefficient parastatals. Indeed, the constraints limiting the value of real producer prices are determined by objective technical and economic conditions that cannot be altered in the short run and that are only indirectly addressed by the ERP. In fact, the government's earlier attempts to raise real agricultural producer prices had primarily been thwarted by these same objective factors and not by the rent seeking behaviour by its urban coalitions as the orthodox argument suggests.
Worse still for the prospects of economic recovery under the ERP is the realisation that even the World Bank accepts that under Tanzanian conditions there is no chance that higher producer prices could increase total agricultural production significantly, and certainly not by enough to curb inflationary pressures or to restore a balance of payments equilibrium.

These conclusions are disastrous for the ERP since its plausibility depends on the claim that market forces would raise agricultural producer prices and that this would relieve the shortages at the heart of the crisis. If, for some reason, that supply response is not feasible then a decision to allow market forces to allocate scarce basic commodities becomes very difficult to justify. It is probably not efficient (Weitzman 1987), it is almost certainly unethical (Sen 1981) and it is undoubtedly dangerous politically.

The ERP therefore appears as a risky policy experiment with little chance of producing an economically, politically or socially sustainable outcome in Tanzania's rural areas. While the Bank and the Fund continue to defend the policy on the grounds that, despite its shortcomings, it nevertheless represents 'the best available alternative', this paper challenges that claim and argues that, in view of the policy's poor economic prospects and its high political risks, it would be far better if the international agencies assisted countries in devising less risky, more nationally coherent policies that could better manage the stresses and strains of their gradual and carefully phased insertion into a volatile international economy. Ironically, the paper shows that the policies pursued by the Tanzanian government prior to its adoption of the ERP could have provided the basis for such an alternative if they had been more adequately supported and if that support had not systematically encouraged them to err in the direction of excessive optimism in their assessment of international economic trends.

The paper is divided into five sections. The first looks very briefly at some methodological issues and identifies the approach to be adopted in this paper. The second summarises the main sequence of events that led to the economic crisis of the early 1980s, discusses the two main alternative interpretations of that process and then evaluates the claim that the ERP represents an optimal response to that crisis. The third section assesses the ERP's impact on Tanzania's rural population and examines the likelihood that the ERP could stimulate a major agricultural supply response. The fourth section asks whether the ERP can be expected to lead to a significant and sustained increases in agricultural producer prices as a result of the reallocation of extensive rents currently misappropriated by urban interests. The fifth section inquires whether that same result might be achieved through a major reductions in marketing and distribution costs. The sixth and final section presents some conclusions and briefly returns to the question of alternative policy regimes.

A methodological note

Methodologically an assessment of the impact of a broad and complex policy package like the ERP cannot be based on rigorous empirical validation. As a result, conclusions must rely more heavily on the theoretical and historical perspective that is brought to the data, which inevitably leaves much room for legitimate disagreement over the meaning of the 'facts'. A recent IMF study, dealing with the social impact of structural adjustment, clearly identifies this problem when it suggests that such enquiries must, therefore, draw their conclusions 'more through deductive reasoning and less from actual quantitative information' (Heller et al:IMF 1988, page 8). In response that study adopts to an extreme position that effectively robs the empirical evidence of all significance by suggesting that:

'the most constructive approach to the assessment of the social impact of a Fundsupported
program appears to be the axiomatic acceptance of a J curve in the economy's trajectory' (Heller et al:IMF 1988, page 10).

Methodologically this paper will seek to steer a middle course, accepting the impossibility of rigorous empirical validation but also seeking to avoid the temptation to derive results entirely from a set of axiomatic assumptions with little or no reference to empirical evidence. This is no easy task as it requires one to deal with reality in all its complexity and to accept the consequent ambiguity and loss of rigour. What this means was recently articulated in a brilliant economic assessment of the case for an industrial policy in Canada. Having rejected the possibility that this could be derived from models that exclude many awkward but vitally important aspects of the real world, this study called for a historically based but empirically oriented approach which accepts the formidable challenge of trying 'to recognise the general effect of the overall package of industrial policies on the economy' (Harris 1986, page 112). In the same spirit this paper will attempt to identify the 'general effect of the overall package of adjustment policies' on Tanzania's economy and especially on its rural labour force.

Is the ERP the right response to the economic crisis?

This section will identify the key events and decisions that led to the economic crisis of 1982/83 and present two alternative explanations of that process. One of these leads to the conclusion that the ERP would represent an effective response to that crisis but this turns out to be difficult to reconcile with the evidence. Moreover, even if one overlooks those difficulties and accepts the ERP as a plausible response to the crisis, it appears most unlikely that the conditions that would have to be met for that strategy to succeed could be met in the Tanzanian economy in the 1980s.

Despite its underlying complexity, the process that led to the crisis of the early 1980s can be summarised relatively simply as the construction, over twenty years, of a geographically dispersed, import intensive, urbanised economy depending critically on expanding marketed agricultural surpluses to feed the urban population and to earn the foreign exchange required for that system to operate. The crisis arose because those surpluses did not grow fast enough to meet those demands and the key issue in the policy debate is whether that failure occurred primarily because domestic political pressures failed to allow market forces to determine relative prices in the economy.

The argument that this failure was primarily caused by distortions reflecting the power of a self-interested 'urban coalition' is not easy to reconcile with the observation that the problem first became acute in 1973/74 when sudden exogenous disturbances in the form of the oil crisis and a severe drought dramatically increased the volume of exports needed to pay for the normal volume of imports required by the economy to function efficiently. Before that time the economy's external balance had been maintained well enough that, in 1973, the World Bank could express concern that the government might be holding excessive foreign exchange reserves. To be sure, there were some worrisome long term trends in the relative growth of imports and exports (World Bank 1977) and urban incomes had outstripped those in the rest of the economy (Valentine 1984) but these problems were of modest proportions and the government was responding to both: the first by preparing a longterm industrial strategy that was to reduce the economy's import propensity; the second by means of a highly restrictive and effective urban incomes policy that was to remain in place to the present (Bienefeld 1979; Valentine 1984; Jamal and Weeks 1988). Both of these problems and responses will be considered in some detail since they are central to the discussion that follows.

The country's Current Account moved into deficit from 1970 but this remained a very small proportion
of GDP and was, in any case, more than covered by the increased capital inflow (Table 1) ‘much of it associated with the financing of TAZARA (ie the TanzaniaZambia Railway)’ (World Bank 1977, page 48). One might describe this as a longterm development strategy made possible by the availability of large quantities of capital at highly concessional terms. This inevitably involved an import surplus that was largely due to the rise in imports (as a proportion of GDP); exports as a proportion of GDP had undergone a decline after 1967 but had since then remained at 24 percent (Table 1). In no sense could this be described as an irrational or a profligate policy, though some concerns were expressed about the budgetary implications of this level of project spending (1).

Table 1: Tanzania: Balance of Paymnts, Exports/Imports as Percent of GDP and Food Imports (Tons) 1965 to 1978

<table>
<thead>
<tr>
<th>Current Capital</th>
<th>Overall Exports</th>
<th>Overall Imports</th>
<th>Food Account</th>
<th>Food Account</th>
<th>Overall Balance</th>
<th>Exports as % GDP</th>
<th>Imports as % GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td>as % GDP</td>
<td>as % GDP</td>
<td>as % GDP</td>
<td>as % GDP</td>
<td>as % GDP</td>
<td>as % GDP</td>
<td>as % GDP</td>
</tr>
<tr>
<td>1965</td>
<td>+ 0.4</td>
<td>+ 1.0</td>
<td>0.2</td>
<td>27.8</td>
<td>23.2 1966</td>
<td>+ 1.5</td>
<td>+ 2.5</td>
</tr>
<tr>
<td>1967</td>
<td>+ 1.6</td>
<td>+ 1.0</td>
<td>+ 0.7</td>
<td>28.6</td>
<td>27.0 13 1968</td>
<td>1.0</td>
<td>+ 0.5</td>
</tr>
<tr>
<td>26.2</td>
<td>17 1969</td>
<td>+ 1.5</td>
<td>+ 1.7</td>
<td>+ 0.5</td>
<td>24.2 26.7</td>
<td>5 1970</td>
<td>2.2</td>
</tr>
<tr>
<td>1.2</td>
<td>24.7</td>
<td>24.4</td>
<td>55 1971</td>
<td>6.6</td>
<td>+ 11.1 0.4</td>
<td>24.0</td>
<td>28.4</td>
</tr>
<tr>
<td>4.9</td>
<td>+ 7.7</td>
<td>+ 3.5</td>
<td>24.2</td>
<td>33.0</td>
<td>105 1973</td>
<td>7.2</td>
<td>+ 6.9</td>
</tr>
<tr>
<td>1974</td>
<td>15.3</td>
<td>+ 8.7</td>
<td>6.4</td>
<td>22.3</td>
<td>29.2 447 1975</td>
<td>13.3</td>
<td>+ 11.0</td>
</tr>
<tr>
<td>31.0</td>
<td>269 1976</td>
<td>3.5</td>
<td>+ 3.3</td>
<td>0.7</td>
<td>22.7 24.9</td>
<td>189 1977</td>
<td>4.9</td>
</tr>
<tr>
<td>3.3</td>
<td>18.1</td>
<td>22.6</td>
<td>81 1978</td>
<td>14.3</td>
<td>+ 6.4 7.3</td>
<td>14.2</td>
<td>28.0</td>
</tr>
</tbody>
</table>

- includes errors and omissions
Sources: World Bank 1977 (Tables 2.1, 3.1 and 3.2) World Bank 1980 (Tables 1.1, 3.1 and 3.2) Raikes 1986 (Table 5.3)

The figures in Table 1 clearly show that the crisis of the mid 1970s overturned a situation that was previously viable in terms of its external linkages. Although some people were concerned about such high levels of capital inflow, the fact was that this capital was obtained such highly concessional terms that Tanzania's debt service position remained relatively favourable until well into the 1980s. In other words, it was hard to say no to such inflows at the time given the desire to expand production and improve welfare.

The crisis resulted in an acute shortage of foreign exchange that triggered a vicious circle in which import shortages deprived industry, transport and agriculture of inputs, spare parts and incentive goods, thereby restricting output, reducing efficiency and further reducing foreign exchange earnings. Under these circumstances it would have been impossible for the government to raise real agricultural producer prices across the board, nor would market forces have produced such an outcome under these conditions. Thus, given the recent threat of famine and the massive scale of food imports (Table 1), the government responded by substantially increasing the real producer prices of food. While this increased food production it did so at the expense of export crops, so that the share of GDP that is exported fell sharply thereby paving the way for the even more acute crisis that would emerge in the early 1980s.

Apart from increasing the producer price of food, the government restricted urban incomes drastically and intensified its import controls. These measures appeared to bring things quite effectively back under control (Table 1). By 1976 the current account deficit was down to just 4 percent of exports.
(Table 2) and maize imports were just 13 percent of their 1974/75 peak. The 1976/77 coffee (price) boom dispelled any lingering notion of crisis in many circles, even though the volume of exports had declined in 1977 (Table 3), partly as a result of the price incentives that had been given to food producers.

In general, the government's response to the crisis of the mid 1970s was successful enough for the World Bank's 1984 Country Memorandum to conclude that until 1978 'per capita agricultural production appeared to have kept pace with population growth'; the country 'was able to build up a comfortable cushion of foreign exchange reserves'; 'Tanzania's real effective exchange rate was relatively stable vis a vis its major trading partners'; and the country's 'fiscal posture was fairly conservative' with the recurrent budget in surplus and development expenditure growing in line with the availability of foreign finance (World Bank 1984a, #A10, page iv).

### Table 2: Tanzania: Current Account Balance as a Percent of Exports (of Goods and NonFactor Services: 1973 to 1987

<table>
<thead>
<tr>
<th>Merchandise</th>
<th>Current Trade</th>
<th>Account Balance as % of Exports</th>
<th>Balance as Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>38</td>
<td>30 1974</td>
<td>90</td>
</tr>
<tr>
<td>1975</td>
<td>107</td>
<td>62 1976</td>
<td>9</td>
</tr>
<tr>
<td>1977</td>
<td>38</td>
<td>13 1978</td>
<td>140</td>
</tr>
<tr>
<td>1979</td>
<td>102</td>
<td>63 1980</td>
<td>141</td>
</tr>
<tr>
<td>1981</td>
<td>110</td>
<td>74 1982</td>
<td>168</td>
</tr>
<tr>
<td>1983</td>
<td>115</td>
<td>81 1984</td>
<td>125</td>
</tr>
<tr>
<td>1985</td>
<td>250</td>
<td>145 1986</td>
<td>201</td>
</tr>
<tr>
<td>1987</td>
<td>215</td>
<td>82</td>
<td></td>
</tr>
</tbody>
</table>

Sources: Sharpley 1985 (Table 1:from Bank of Tanzania) for 19739 Tanzania Economic Trends, 1:2, Table 4 for 1980-87

Although agricultural surpluses were not growing fast enough to sustain the country's long term pattern of economic growth, this problem was somewhat obscured by the coffee price boom and the reduction in food imports 1976/77. In retrospect one can see that it was at this point that imprudent policies ensured that the crisis of the early 1980s would reach disastrous proportions. The government now proceeded on an assumption that was widely shared in the international community, namely that the oil crisis was effectively over and that the international economy had once again returned to stable growth. Accordingly it accepted the World Bank's advice to liberalise its imports and proceeded to secure external finance (much of it also from the Bank) for a number of large projects, several of which would soon count among the white elephants so bitterly deplored by the Bank today (2).

Anxious to secure external assistance to pursue its Basic Industries Strategy and happy to be persuaded that one could afford to be optimistic regarding the global economy's future prospects, the government thereby dramatically increased the economy's vulnerability to the renewed shocks that materialised in quick succession after 1978. In effect the government adopted high risk policies that would have been appropriate for a much stronger, more resilient economy or for a strong, expansionary phase in the international economy. For Tanzania just approaching the watershed of 1979 they were disastrous.

Adoption of these policies was followed by a swift and dramatic deterioration in the country's basic
macroeconomic balances that has yet to be effectively reversed. Moreover, this process clearly began even before the external shocks of 1979. In effect the introduction of strongly expansionary policies fuelled by large, import-intensive, externally funded industrial and infrastructural projects, combined with measures to liberalise trade led to a 36 percent increase in the volume of imports from 1977 to 1978. To make matters worse, in that same year, relative import prices rose (by 13 percent) and unit export prices fell (by 9 percent) so that it would have required a 69 percent increase in the volume of exports to keep the trade balance from deteriorating further. In actual fact, export volume fell by 3 percent (Table 3)!

Table 3: Tanzania: Volume and Price Indices of Exports and Imports: 1973 to 1980

<table>
<thead>
<tr>
<th>Year</th>
<th>International Volume Imports</th>
<th>Exports</th>
<th>Prices/Unit Values Imports</th>
<th>Exports</th>
<th>Purchasing Power of Year Exp. Earnings</th>
<th>Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>73 1975</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100 1974</td>
<td>74</td>
</tr>
<tr>
<td></td>
<td>1974</td>
<td>74</td>
<td>101</td>
<td>153</td>
<td>156 64 1976</td>
<td>101</td>
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<tr>
<td></td>
<td>1975</td>
<td>79</td>
<td>96</td>
<td>135</td>
<td>169 84 1977</td>
<td>153</td>
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<tr>
<td></td>
<td>1976</td>
<td>84</td>
<td>87</td>
<td>227</td>
<td>181 86 1978</td>
<td>156</td>
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<tr>
<td></td>
<td>1977</td>
<td>87</td>
<td>97</td>
<td>223</td>
<td>237 66 1980</td>
<td>156</td>
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<td></td>
<td>1978</td>
<td>97</td>
<td>97</td>
<td>237</td>
<td>84 1980</td>
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<td></td>
<td>1980</td>
<td>97</td>
<td>97</td>
<td>237</td>
<td>84 1980</td>
<td>84</td>
</tr>
</tbody>
</table>

Source: Sharpley 1985 (Table 2)

Thus, even before the massive external shocks that began in 1979, the current account deficit had exploded to a level equal to 99 percent of exports and that ratio has never again fallen below 63 percent. The merchandise trade balance collapsed even more spectacularly. Having fallen to just 9 percent of exports in 1976, it reached 140 percent by 1978 and never again fell below 100 percent, meaning that since 1978 Tanzania's merchandise exports have financed less than 50 percent of its declining merchandise imports (Table 2). In short, the economy was already dangerously overextended when it suffered the series of reverses that began in 1979 and that included a sharp decline in commodity prices, the Uganda war, another severe drought, the second oil crisis, and an unprecedented rise in international real interest rates. Given its precarious circumstances the cumulative impact of these developments on the economy is difficult to exaggerate.

The resulting process of disintegration was the more serious because the government had made a strong political commitment to the improvement of social welfare, because the state had assumed direct responsibility for a wide range of functions and because the economy was naturally disadvantaged by its geographic and demographic characteristics which imposed high unit transport costs on its producers. These things both heightened the impact of those external shocks and reduced the government's room for manoeuver in responding to those changes.

As rural and urban incomes both fell, acute shortages led to rapid inflation and growing parallel markets which undermined existing allocative mechanisms and weakened the country's administration both by reducing government revenue and by expanding the opportunities for corruption; opportunities that proved all too tempting to officials whose real salaries were collapsing and whose need to supplement their official incomes through other activities increasingly conflicted with their formal duties and led to further declines in morale and efficiency.
By early 1982/83 the economy had entered a chronic decline that was graphically described by the World Bank in 1984.

'The technology of smallscale farming has been the same for the past half century or longer, hence yields are low. On top of this, the structural decline in production is directly related to the depreciation of the capital stock and other assets in the sector. Bush and tree crops are long past their peak output, and overcrowding is causing soil erosion and lack of fertility in the highland areas. In industry, the average age of the capital stock is probably only about 10 years, but unused and unrepaired plant and equipment rusts faster in the tropics than in temperate zones. The transport fleet is in a state of disrepair and roads are being lost each year because of inadequate maintenance. In the social sectors, lack of education materials and medicines are eroding the gains which have been made. The process is underway in every sector and in every region of the country. It is the very opposite of development and unless it is reversed, living standards will remain low for the foreseeable future for what is being lost is the rate of growth of potential output'

(World Bank 1984a, #2.2, page 18).

This situation was clearly unsustainable. Some way had to be found to restore a semblance of balance between the economy's capacity to generate foreign exchange and its demand for imports at full employment growth. The ERP was the solution that was proposed by the lending agencies on the grounds that an extensive liberalisation of markets would improve allocative efficiency and raise long term agricultural growth rates thereby easing the balance of payments crisis. However, the plausibility of this claim rests on three assumptions, namely: that the economic crisis was not, itself, largely a result of those same 'international market forces' that were to be given a much greater role under the ERP; that the introduction of such policies would significantly increase allocative efficiency under the crisis conditions pertaining by the mid 1980s; and that such policies would significantly increase agricultural growth rates.

The ERP would provide a solution only if all three of these conditions could be satisfied but, unfortunately for Tanzania, this is unlikely to be the case for even one of them. This is because international market forces were instrumental in shaping and financing the economic structure that has proven to be such a problem in the 1980s; because market liberalisation has highly unpredictable effects when introduced in a situation of crisis; and because the price elasticity of total agricultural supply is not likely to be very high under Tanzania's conditions. Moreover, it can be shown that the World Bank accepts each of those three propositions, even though that is not compatible with its strong support of the ERP.

The orthodox argument seeks to exonerates market forces from blame for the crisis by arguing that its cause was political, taking the form of a systematic manipulation of rational market signals by a rent seeking, exploitative urban coalition deriving its power from a national political process. On this basis it can then plausibly suggest that the crisis could have been avoided, and could now be solved, if prices were to be systematically determined by international market forces as they would be under an orthodox structural adjustment regime.

This urban coalition includes all formal sector wage and salary earners and is dominated by the state bureaucracy. It serves its own interests by consistently turning the terms of trade against rural producers, but this proves to be a selfdefeating, shortterm strategy because it creates an ever growing need for marketed agricultural surpluses of food and export crops at the same time as it undermines the
incentives, and the ability, of rural producers to deliver those surpluses. This contradictory process will generally be brought to a head when the peasantry eventually withdraws an ever larger part of its marketed surpluses either from official markets or from the domestic economy altogether. From this point of view, the resulting problems are only compounded when these urban interests then attempt to evade the consequences of their misguided actions by trying to contain the resulting inflationary pressures through price controls or by refusing to devalue the currency, despite widening current account deficits. So long as the underlying shortages remain, such policies will merely lead to an unsustainable growth in public sector deficits and an expansion of parallel markets whose rising prices will drive up the implicit rate of inflation. If the exchange rate is not adjusted under these conditions the real rate of exchange will appreciate and this will further undermine the balance of payments by cheapening imports and discriminating against exports. In this view, the attempt to allocate scarce goods by rationing or through the use of various types of import controls merely creates a wasteful and divisive competition for the large economic rents that accrue to those fortunate enough to be allocated scarce imports at controlled prices far below their real scarcity value in the economy.

While this argument accurately describes many of the problems of trying to manage an economy in crisis, its central claim is untenable when applied to the Tanzanian experience. The available empirical evidence does not support the claim that Tanzania's crisis resulted from the actions of a national, urban coalition that consistently defied the logic of the market and used its political power to line its pockets at the expense of an exploited peasantry. In fact, the empirical evidence that is most widely used in this debate shows that urban wages and salaries were squeezed more fiercely than any other form of income after the onset of the crisis in the mid 1970s and that the real income of rural producers were actually remarkably well protected under very difficult circumstances. The evidence also shows that Tanzania's macroeconomic policy had been relatively successful prior to the major external shocks of the 1970s and had, already at that time, begun to address the problem of widening urban-rural income differentials. Finally, it shows that some of the gravest errors of the government occurred precisely because it was too ready to accept international finance for projects on the grounds that the donors or investors had established their commercial (ie market) rationality.

These points are important because, if they are valid, then the ERP is based on a false diagnosis and its policy prescriptions are most unlikely to prove effective. Indeed, they will further reduce Tanzania's ability to control or guide the growth of its modern, urban sector, thereby probably increasing the pressure on the rural economy. Moreover, in the absence of significant urban rents to be reallocated to rural producers there is very little chance that the ERP's much discussed positive impact on the peasantry will materialise. From this point of view, the ERP will make it even more difficult for Tanzania to fashion a cautious and manageable development strategy in an incautious and volatile world.

The alternative argument accepts that domestic policy errors were important but suggests that these were made when a very import intensive, technologically dependent, dualistic, urbanised structure of production and communication was created on the basis of extremely optimistic, ahistorical assumptions about both the global and the national economy. Moreover, far from ignoring or contravening the logic of the international market, this process was a direct reflection of that logic as it found expression through the aid agencies, the banks, and the foreign firms and their consultants who justified, financed, supported and demanded this 'neocolonial' pattern of development in their constant desire to expand sales, markets and investment; a desire that became even more intense than usual in the 1970s when a global problem of excess liquidity created circumstances in which 'bankers paid less attention to the viability of the particular projects they financed' once they had demanded and received stronger sovereign guarantees for their investments (World Bank 1985, page 114).
This does not absolve the Tanzanian government from blame, but it challenges the claim that greater responsiveness to market forces would have prevented this problem from arising. To the contrary, from this perspective market forces appear as a central part of the problem and the extensive deregulation of markets would probably intensify the risk of repeating those past errors (3). The search for solutions must therefore focus on the much more difficult task of strengthening the country's political and institutional capacity to manage those powerful and volatile forces of the market in the national interest.

There can be no doubt that the Tanzanian authorities failed to arrest the downward spiral of the early eighties but that is a long way from suggesting that more market oriented policies would have been successful. Given the severe imbalances that had resulted from the risky and overoptimistic decisions of 1977, it is more than possible that there was no domestic policy that would have allowed the economy to deal with the disastrous events that followed after 1978.

Once a point is reached where there is no longer any realistic prospect of bringing the supply of foreign exchange into line with demand except at levels of imports that is so low that both economic efficiency and political stability are undermined then a government becomes almost totally dependent on foreign assistance. Unfortunately, in this case, that assistance has been provided only on condition that the government move yet further in the same dangerous, risky, and overoptimistic direction that it pursued, partly on the same advice, in 1977/78 with such disastrous results. Only the risks that the government is running on this occasion are far greater and the chances of success considerably less.

From this perspective, the economic crisis of the early 1980s should yield three main lessons. First, it should draw attention to the acute danger of being too sanguine about international economic trends or about the national economy's capacity to absorb technical and managerial skills through joint ventures or public sector projects. It was unwarranted optimism that led the government to collaborate all too willingly with international capital in building an ultimately unsustainable modern sector whose voracious appetite for foreign exchange would always threaten to exceed the hardpressed peasantry's capacity to deliver food and foreign exchange. Tanzania's failure in this respect is the more painful because its leadership recognised the danger at an early stage but still failed to avoid the result.

The second lesson is that when the fundamental unsustainability of an entire economic structure becomes apparent, a government's capacity to respond will be extremely limited. For many developing countries there may, at this stage, be little option but to borrow and to squeeze agriculture in the desperate hope that the crisis is temporary and that one can hold out until the recovery, thereby averting the downward spiral that would otherwise be triggered immediately by an acute shortage of foreign exchange.

At this point a government is likely to find its capacity to intervene constructively in the economy declining, at the same time as the need for such intervention rises. Its capacity to intervene will decline as shortages and falling income undermine its administration and its ability to investment, while the need for intervention increases as the problems of market failure become more widespread and more serious as the prices of basic goods respond to endemic shortages that cannot be rectified through increased supplies in the short or medium term.

The third lesson is that the attempt to deal with these endemic shortages through price controls and rationing can succeed, in the short run, only in so far as the allocation of the rationed goods is seen to be fair and efficient; and in the longer run only if it can combat the shortages through increased
production despite the inherently stifling effect on producers of price controls and rationing. Ultimately this will depend on the nature of the production process and on the administrative and financial resources available to stimulate supply. However, where production is based on smallholders, and especially where smuggling to neighbouring markets is a real possibility, price incentives will almost certainly have to play a central role in any solution.

Of these three lessons, the first is clearly the most important and the most difficult. The crucial task is to create national, political coalitions that can resist the temptation to use any and all available international resources to finance growth and 'economic development' while leaving little margin for error and making no allowance for the major disturbances that are historically a periodic feature of the international economy. Although international economic pressures will often strongly encourage such overoptimistic behaviour, especially during periods of general expansion, they will always find ready allies among local urban and rural elites anxious to gain access to foreign exchange and to the 'western lifestyle'. A central emphasis on the question of whether that pressure is primarily internal, or external, is therefore quite inappropriate and uninteresting.

Problematic urban interests do, therefore, exist but they do not incorporate all urban wage and salary earners and they generally do not act systematically contrary to the dictates of the international market. Indeed, they generally act in concert with it. Thus, they favoured 'protectionism' in the sixties and the early seventies, when foreign investors invariably demanded such barriers because they were then primarily concerned with establishing subsidiaries to supply local markets. Now they favour liberalisation because production for third country exports has become the norm. In short, the urban coalition is no new discovery as the orthodox analysis would suggest, but merely a misleading and analytically quite unhelpful redefinition of what was otherwise known as the 'comprador bourgeoisie'.

Since Tanzania's economic crisis also emerged as the result of an excessive willingness to use aid and foreign finance to expand the modern, urban economy beyond a sustainable level this would appear to suggest that its policies were determined by such 'comprador' elements. While there is undoubtedly some truth in this (4), it is important to recognise that the temptation to invest borrowed or donated funds beyond a prudent level will also afflict a genuinely nationalist, populist or even socialist government since it too will be anxious to build its productive base and to improve social services. It is in this context that one must understand Tanzania's failure even though that makes the lesson more painful and more challenging.

What this means is that any government that is genuinely concerned to improve the welfare of its population and that is seeking to build a political coalition to sustain such an effort will find it all but impossible to reject foreign finance for projects merely because these might become liabilities under some hypothetical circumstances that the majority of 'expert opinion' constantly declares to be highly unlikely. The problem is compounded when those who are risking 'their' funds claim to have established the viability of the projects on the basis of voluminous and apparently sophisticated costbenefit analyses, and when the domestic political coalition contains substantial comprador elements that are only too glad to take those risks.

Certainly the ERP does not represent a prudent or a cautious strategy. It was adopted as a result of intense international pressure by an almost desperate government faced with the prospect of continuing economic decline by the early 1980s. Given the chance, an economy in this position faces an almost overwhelming temptation to act on the highly optimistic premise that it can once again 'grow out of its problem' by means of renewed, 'more efficient' external borrowing and investment. Unfortunately, this belief is even less likely to prove justified now than in was in the 1970s, given the persistence of high
interest rates, saturated international commodity markets and a steady deterioration in the country's physical and administrative infrastructures. Moreover, if this does prove to be yet another externally induced error in judgment, the costs are likely to be even higher since any further increase in the burden of debt or in the balance of payments deficit can now no longer be absorbed by drawing down reserves or by cutting 'fat'.

Thus far it has been argued that the more direct exposure of the Tanzanian economy to international economic forces is most unlikely to reduce its propensity to push the growth of its modern, urban economy beyond the carrying capacity of its agricultural sector. The opposite result is more likely. Later the paper will consider the other two question posed earlier, namely whether the introduction of the ERP help to resolve the problem that has already emerged by increasing the efficiency of resource use or by stimulating a large increase in agricultural output and exports. At this point we return to look in more detail at the process by which the ERP was actually adopted in the wake of the crisis of 1982/83.

That crisis effectively brought the government to its knees coming, as it did, in the wake of a long period of economic difficulty in which reserves had been spent, incomes had been adjusted downward, infrastructure and the vehicle fleet had been allowed to deteriorate. There was, therefore, no more room for manoeuver when per capita GDP began to fall sharply after 1980, falling in the next three years by a cumulative 12.3 percent (Table 4). The balance of payments remained in deep trouble and was only kept from total collapse by a massive compression of imports, which fell by one third in nominal $US terms (ie by around 40 percent in real terms) between 1980 and 1983. This did not help the current account as much as one might have expected, however, since the value of exports (in current $US) also fell by more than 20 percent over the same period (Table 5).

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Source: Tanzanian Economic Trends, Vol1:No1, Table 2

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Table 4: Tanzania: GDP and GDP/Capita (at 1976 Prices): 1975-1987 (Annual Percentage Growth Rates)

The government first sought to deal with this crisis by trying to 'hold the line' on its attempts to ration scarce basic commodities. Accordingly it mounted a major anticorruption drive in 1983 but this was soon abandoned since by this time the problems had simply gone too far for such measures to be enforceable (5).

At this point the government had little option but to seek external assistance at almost any cost and it proceeded almost immediately to begin to remove the obstacles to an accommodation with the IMF. When it finally committed itself in 1986 to a full, orthodox structural adjustment package this was, therefore, merely the culmination of a policy shift that had begun some years earlier at the height of that crisis (Biermann and Campbell, 1988). In fact, the 1984 Budget had introduced many of the most controversial and potentially divisive policies usually associated with such an adjustment package, including: the reduction or removal of subsidies on most basic food items and on agricultural inputs; the de facto legalization of currency offenses through the introduction of an 'own account' import scheme, allowing the unrestricted use of foreign exchange to import a wide range of goods; the substantial devaluation of the Tanzanian Shilling; the further sharp reduction of urban wages and a renewed commitment to shift the domestic terms of trade towards agriculture; and the introduction of user fees for many public services. This continuity was emphasised in the ERP's remark that: 'The major policy actions which will be taken during the recovery period were identified and implemented in varying degrees over the past four years' (Government of Tanzania 1986, #53, page 14).

In effect, the ERP consolidated those earlier changes and set out a comprehensive policy package that relied even more heavily on price reforms 'to increase the efficiency of resource use'. Its 'key' components were described as:

'(Reform of) producer prices, exchange rate adjustment, consolidation of the measures taken to restructure incentives in the external sector through partial liberalization of trade: fiscal, monetary and interest rate policy designed to curb inflation and improve the efficiency in the allocation of domestic resources, and institutional reforms to rationalise public sector operations and improve economic management'

(Ibid, #54, pages 14,15).

The government now undertook to implement a conditional policy package under IMF supervision. Agreement was reached for a standby loan of SUS 200 million in June 1986 and this became the start of the three year Economic Recovery Program which eventually received the blessing and support of the main donor agencies (Bierman and Wagao 1987, pages 98100). The government clearly entered into this arrangement primarily in order to gain renewed access foreign exchange noting that the impact of its earlier adjustment policies 'would have been more substantial if implementation had been accompanied by an expansion in overall import capacity' (Government of Tanzania 1986, #53, page 14).

To succeed, the ERP had to restore the economy's capacity to finance a level of imports that could support steady expansion and growth while containing inflation so that a healthy balance of payments could go hand in hand with a reasonably stable exchange rate. There was little doubt that both of these objectives could be met only through a rather dramatic and sustained increase in output and efficiency, especially in the agricultural sector. The problem was that it was not at all clear that this could be
achieved under Tanzanian conditions. Such imbalances in an economy's external account generally require some combination of expenditure reduction (stabilisation) and expenditure switching (adjustment). The former acts largely on the demand side and is clearly less desirable since it seeks to restore balance by reducing imports through a reduction in domestic absorption (consumption plus investment); the latter acts on the supply side and is clearly more desirable since it seeks to solve the problem by increasing the efficient production of tradeables (import substitutes and exports). It is also much more difficult to achieve. In theory, the orthodox adjustment policies are designed to allow equilibrium to be restored at a lower social and economic cost by shifting more of the burden on to supply side policies (Yagci et al 1985; IMF 1987); in practice they can have perverse destabilising effects if introduced in situations where debt or inflation is a serious problem.

This is clearly recognised by the IMF's research department which recently noted that negative feedback relationships between several of the individual policy contained in the standard adjustment package 'render policy making in an environment of high external debt especially difficult, all the more so when there is significant inflation to begin with' (IMF 1987, page 45). Indeed, they conclude that 'further study' is required before a policy package appropriate to such circumstances can be developed (6). This point is now widely acknowledged and documented and was nicely summarised in the warning by Jeffrey Sachs that:

'general observations (regarding the desirability of an 'outward oriented' policy) .. do not really justify the equation of outward orientation with market liberalization, nor the emphasis on liberalization as an instrument of crisis management in the debtor countries. In my view, the policy emphasis on liberalization and deep real exchange rate depreciation as a tool of debt crisis management is fraught with difficulties'

(Sachs 1986)

The argument is not whether the liberalisation policies contained in the ERP are good or bad in themselves, but whether they are appropriate to Tanzania's circumstances in the mid 1980s. The danger is that such policies may have destabilising effects and expose a weakened and divided society to such severe social and economic pressures that no constructive response will materialise. This is a very real danger in subSaharan Africa where such miscalculations can mean the difference between a gradual return to economic viability and a disastrous further slide into debt, dependence, and in some cases, destitution and political instability. Those who advocate these policies must, therefore, be sure that the society in question has the economic and the institutional capacity to meet the challenge these policies pose, but unfortunately:

'The most important limitation of IMF analytical approaches to African and other lowincome countries' macroeconomic problems is probably .. neither that of its "market bias" nor that of its unconcern with politically important distribution questions. Rather, it is its inadequate consideration of these countries' limited adjustment capacity'

(Helleiner 1983, pages 28,29)

Unfortunately, errors of judgment regarding a country's real adjustment capacity are rarely acknowledged since it is too easy to blame to the government's lack of commitment, the weakness of the implementing institutions, or just plain 'bad luck', usually in the form of falling export prices. Such 'explanations' can always be used to avoid questioning the wisdom of the policies themselves or the judgment to apply them in a given situation.

In assessing the likely impact of these policies on Tanzania's rural population one of our concerns must be to establish whether those destabilising, negative feedback effects discussed by the IMF's research
Assessing the evidence

Nothing is more important for Tanzania's economic recovery than a sustained acceleration in its total agricultural output, including especially a reversal of the disastrous long term trend in export crop production. It comes as no surprise, therefore, that the ERP's first stated objective was:

'to increase the output of food and export crops through appropriate incentives for production, improving marketing structures, and increasing the resources available to agriculture ... Consequently, the emphasis of the recovery programme will be on channelling resources to raising the productivity of smallholder agriculture because the maximum returns on the use of scarce resources is likely to come from a programme focusing on smallholders and villages, which account for 80 percent of agricultural output and 46 percent of total GDP. Widening the range of activities at the village level would also stimulate villagers' own efforts to better their lives'

(Government of Tanzania 1986, page 14)

The remainder of this report will consider the ERP's impact on these vitally important rural objectives. The thrust of that discussion is, unfortunately, rather pessimistic. It appears that the encouraging results of the first few years are unlikely to be sustained without substantially increased investment and a significant breakthrough in agricultural research. Since neither of these is likely in the foreseeable future it appears more than likely that 'inadequate consideration' has once again been given to Tanzania's 'limited adjustment capacity'.

The ERP places primary emphasis on agricultural pricing policies because it is based on the premise that the sector's performance has been so disappointing largely because urban interests have systematically depressed producer prices through their rentseeking activities. Since competitive market prices are thought to lie well above these manipulated administered prices, it is argued that market forces would raise producer thereby increasing marketed output and helping to solve both the food and the foreign exchange problems. At the same time, such a change would enhance equity by ending the persistent exploitation of Tanzania's peasantry by corrupt, inefficient and shortsighted urban interests.

In this context the initial experience under the ERP appears encouraging since real producer prices of both food and export crops rose from the low points they had reached in 1982/83 and 1983/84 (Tables 6 and 7). Moreover, these price increases appear to have been associated with increased supplies as recent harvests have been bountiful, especially for the main food staples (maize and rice) and for cotton, the one significant annual export crop that is planted by smallholders and that might, therefore, exhibit a significant price elasticity of supply in the short term (Tables 8 and 9). However, before concluding that this illustrates the success of the ERP, it is important to ask: How significant have these price increases been for peasants, both as producers or as consumers? Will these price increases lead to a sustained, long term increase in agricultural output? And, will macroeconomic constraints allow these prices to remain at their present level?

Certainly the real producer price increases recorded in recent years appear to have been significant in most cases. Comparing the 1987/88 price with the average price received by producers in the difficult
years between 1980/81 and 1983/84 (Table 10) all but three crops (wheat, pyrethrum, cardamom) have recorded increases according to the official statistics. This was especially true of food crops, where four of the most important crops (maize, paddy, cassava, beans) experienced increases of over 25 percent while all but two (wheat, sorghum/millet) recorded increases of more than 10 per cent. The more uneven pattern of export crop prices undoubtedly reflects the volatility of international prices. Cashew prices rose by over 45 percent; coffee, tea and cocoa prices by 18 to 28 percent; while the rest experienced small increases (cotton, tobacco, castor seeds) or actual declines (pyrethrum, cardamom).

Table 6: Tanzania: Index of Real Producer Prices of Domestic Crops 1976/77-1988/89

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- Producer prices deflated by National Consumer Price Index
- Crop categories (in order): Maize; Rice; Wheat/Grain; Millet/Sorghum; Cassava; Oilseeds: Sunflower, Jupiter, Mixed; Sesame; Groundnuts; Copra; Soyabeans; Beans
- Underlined figures = low point

Source: Tanzanian Economic Trends, Vol.1:No.2, Table 9B

Table 7: Tanzania: Index of Real Producer Prices of Export Crops 1976/77-1988/89

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</table>
Producers prices deflated by National Consumer Price Index
Crop categories (in order): Cashews SG; Cashews UG; Cardamon; Coffee (Mild Arabica); Coffee (Robusta); Castor Seeds; Pyrethrum (GrV); Cotton AR; Cotton BR; Tobacco (Fire); Tobacco (Flue); Tea (Green Leaf); Cocoa
Underlined figures = low point

Source: Tanzanian Economic Trends, Vol1:No2, Table 10B

Table 8: Tanzania: Domestic Production of Main Food Crops 1974/75 to 1986/87 #('000s tonnes)

<table>
<thead>
<tr>
<th>Year</th>
<th>Maize</th>
<th>Paddy</th>
<th>Wheat</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974/75</td>
<td>1367</td>
<td>265</td>
<td>821975/76</td>
</tr>
<tr>
<td>1975/76</td>
<td>1664</td>
<td>314</td>
<td>641977/78</td>
</tr>
<tr>
<td>1976/77</td>
<td>1720</td>
<td>262</td>
<td>701979/80</td>
</tr>
<tr>
<td>1977/78</td>
<td>1839</td>
<td>200</td>
<td>901981/82</td>
</tr>
<tr>
<td>1978/79</td>
<td>1651</td>
<td>350</td>
<td>581983/84</td>
</tr>
<tr>
<td>1979/80</td>
<td>2093</td>
<td>427</td>
<td>831985/86</td>
</tr>
<tr>
<td>1980/81</td>
<td>2359</td>
<td>644</td>
<td>72</td>
</tr>
</tbody>
</table>

Source: MDB, Annual Review of Maize, Rice and Wheat 1987, Table 4

Table 9: Tanzania: Official Purchases of Main Export Crops 1979/80 to 1987/88 %('000s mt)

<table>
<thead>
<tr>
<th>Year</th>
<th>79/80</th>
<th>80/1</th>
<th>81/2</th>
<th>82/3</th>
<th>83/4</th>
<th>84/5</th>
<th>85/6</th>
<th>86/7</th>
<th>87/8</th>
<th>88/9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mild coffee</td>
<td>31</td>
<td>53</td>
<td>41</td>
<td>39</td>
<td>36</td>
<td>36</td>
<td>40</td>
<td>37</td>
<td>37</td>
<td>51</td>
</tr>
<tr>
<td>17</td>
<td>14</td>
<td>14</td>
<td>15</td>
<td>13</td>
<td>13</td>
<td>14</td>
<td>14</td>
<td>13</td>
<td>14 Seed cotton</td>
<td>198 185</td>
</tr>
<tr>
<td>133</td>
<td>128</td>
<td>140</td>
<td>155</td>
<td>168</td>
<td>213</td>
<td>226</td>
<td>250 Sisal</td>
<td>86</td>
<td>74</td>
<td>61</td>
</tr>
<tr>
<td>46</td>
<td>38</td>
<td>32</td>
<td>29</td>
<td>37</td>
<td>36 Tea (made)</td>
<td>17</td>
<td>16</td>
<td>16</td>
<td>18</td>
<td>15</td>
</tr>
<tr>
<td>16</td>
<td>14</td>
<td>17 Cashews (raw)</td>
<td>41</td>
<td>57</td>
<td>44</td>
<td>32</td>
<td>48</td>
<td>33</td>
<td>19</td>
<td>17</td>
</tr>
<tr>
<td>Tob'ccoFlue</td>
<td>13</td>
<td>13</td>
<td>12</td>
<td>10</td>
<td>9</td>
<td>11</td>
<td>12</td>
<td>15</td>
<td>14 Tob'ccoFire</td>
<td>4.1</td>
</tr>
<tr>
<td>2.0</td>
<td>1.9</td>
<td>1.6</td>
<td>1.4</td>
<td>1.5</td>
<td>1.4</td>
<td>1.2</td>
<td>1.3</td>
<td>1.9 Cardamon</td>
<td>0.6</td>
<td>0.5</td>
</tr>
<tr>
<td>0.3</td>
<td>0.3</td>
<td>0.4</td>
<td>0.1</td>
<td>0.2</td>
<td>0.3</td>
<td>0.4</td>
<td>0.4 Cocoa</td>
<td>1.0</td>
<td>1.0</td>
<td>1.2</td>
</tr>
<tr>
<td>1.4</td>
<td>1.2</td>
<td>1.6</td>
<td>1.9</td>
<td>2.1</td>
<td>2.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Projections Sisal production is for calendar years (ie 1985/86 is 1986) not available
Source: Tanzania Economic Trends, Vol1:No2, Table 13
Unfortunately, these official figures probably overestimate the real value of 1987/88 producer prices by underestimating recent rural price increases partly because imported inputs and transport make up a relatively large proportion of agricultural production costs and these have recorded far greater price increases than the NCPI (7); partly because the removal of various subsidies on agricultural inputs is not reflected in the NCPI; and partly because the 1987/88 producer price estimates as calculated in Tanzania Economic Trends contain a significant computational error (8). If allowance were made for these various distortions the real producer price increases of the past few years would appear even more modest (9).

It seems unlikely that these producer prices would stimulate the massive supply response required to deal with Tanzania's accumulated economic problems or to make the ERP a success. In fact, even the overstated official estimates of 1987/88 real producer prices show that for all crops except cashews, cocoa and paddy these remained between 15 and 45 per cent below their 1975 to 1979 average. Since total agricultural output grew only slowly and export production actually declined during this period (Table 3) it is hard to see why prices substantially below those paid at that time should have a dramatic positive impact on marketed production in the 1980s.

Although the ERP did bring about a modest improvement in real agricultural producer prices, the benefits to rural households have been very unequally distributed, depending critically on their location and their pattern of productive activities. Ironically, because of the continued importance of subsistence production in Tanzania, a majority of peasant households have probably experienced a net deterioration in their circumstances as a direct result of the changes associated with the ERP. Although these losses cannot be quantified, it is possible to identify the main groups to suffer such losses.

The ERP's net impact on a rural household's income depends on the amount of labour time available for productive work, the extent of the household's marketed surplus, the main crops grown, the import intensity of production and its distance from markets and its main sources of supply. Where labour is a constraint, marketed surpluses are small, production is relatively import intensive and transport costs are high, the household will derive little benefit from the increase in producer prices, while incurring substantial losses as a result of the cost increases stemming from devaluation, the removal of input subsidies, the end of panterritorial pricing, and the reduction of freely provided services like health and education. This means that poor households producing largely for subsistence, and especially those with old or female household heads, cultivating import intensive crops in relatively remote areas will have suffered most acutely as a result of the ERP. Moreover, given the characteristics of Tanzania's rural households it is probable that the majority of the rural population have been net losers in this process.

| Table 10: Tanzania: 1987/88 Real Producer Prices Compared to Average Real Producer Prices for 1980/84 and 1975/79 (Difference in Percent of 1987/88 Prices) |
|---|---|---|---|
| 1987/88 vs 1987/88 vs Food Crops: Avg 17759 Avg 19804 |
| Maize | 15.0 | +38.8 Paddy |
| +12.8 | 34.1 | 5.8 |
| Sorghum, Millet | 43.3 | +7.0 Cassava |
| 27.0 | +28.3 Oilseeds: Sunflower Black | 16.5 |
| Oilseeds: Jupiter | 23.9 | +17.8 Oilseeds: Mixed |
| 18.9 |
14.3  +12.5 Sesame  20.5  +13.7
Groundnuts  30.2  +17.2 Copra  44.6
30.5 +21.7 Soyabean  24.5  +32.8
+17.2 Beans Grade 1

Export Crops:
Cashews SG +109.6 +49.1 Cashews UG
+61.7 +45.7 Coffee: Arabica  40.7 +18.9
Coffee: Robusta  37.5 +27.7 Cotton AR  27.9
  +2.7 Tea (Green Leaf)  25.8 +25.2 Pyrethrum (Gr V)
  16.0  7.3 Tobacco: Fire cured  24.0
  +4.4 Tobacco: Leaf  26.3 +4.5 Cardamon
  30.4  11.1 Castor seeds  26.7
  +8.2 Cocoa  +0.6 +19.3

* Unweighted arithmetic average of annual index numbers
Source: Tables 6 and 7

This follows directly from the fact that Tanzania's peasants are, on average, still very poor, live scattered and dispersed in a very large territory and generally market only a small proportion of their total agricultural output. A recent study of Tanzania's rural economy (Collier et al 1986) shows that the poorest 50 percent of rural households derived 71 percent of their income from subsistence production and only 4 percent from 'net crop sales'. Among the richer 50 percent subsistence still accounted for 35 percent of income and 'net crop sales' for just 14 percent (Ibid, Table 4.3, page 76).

Under such circumstances, a 10 per cent increase in the household's total production costs could be fully offset only by a much larger increase in net returns from marketed crop sales. Indeed, if total production costs represent 50 percent of gross income, then households receiving only 4 percent of their net income from crop sales, would have to see their net income per unit of crop sold increase by 250 percent; and even the richer households, receiving 14 per cent of their income from crop sales, would still have to obtain an increase of around 70 per cent (10)! This means that so long as production costs are rising at a significant rate, households that derive only a small proportion of their income from crop sales are unlikely to find these cost increases offset by producer price increases. Since costs have risen relatively rapidly under the ERP, while producer prices have increased only slightly faster, the net effect has undoubtedly been negative for a majority of rural households although this effect was initially obscured by the return of good rains. Despite this, a recent study reports 'a growing reluctance to accept fertilizers or pesticides because of their high costs' among the peasantry at large (Hyden 1988, page 9).

The only rural households to avoid that fate are those that derive most of their income from commercial crop sales and those that can substantially increase their marketed output. Since only relatively few households meet the first condition, it follows that for most rural households, as for the economy as a whole, everything depends on the capacity to increase marketed agricultural output. Unfortunately, there is little likelihood that such production increases could be achieved under Tanzanian conditions, since production is generally limited by constraints in the availability of inputs, and especially of
labour. The World Bank clearly accepted this in its 1984 Country Memorandum.

'Most farm families rely on human labour as a source of energy to accomplish various activities. Therefore the capacity to increase production is limited by the size of family and the tools available. Other constraints include the lack of technologically suitable and economically rewarding crop packages'

(World Bank 1984a, para 2.5, page 19)

Most rural households will, therefore, find it difficult to take greater advantage of the improvement in producer prices by substantially increasing output. Moreover, the ERP is likely to make this even more difficult because it is raising real interest rates while, at the same time, increasing uncertainty by deregulating very thin and volatile markets. This combination will certainly discourage rural households from seeking credit to expand output and for most poor households at the margin of subsistence such risk averse behaviour would appear to be well justified. As a result, most rural households are unable to take advantage of the hypothetical opportunities provided by the ERP, which may explain the hostility expressed by many peasants towards a policy supposedly introduced to serve their interests (11). It may also explains why one recent observer noted that 'one must expect that agricultural production in Tanzania in the years ahead will increasingly be led by largescale farmers.. (who) can afford proper husbandry and .. take the risks that the ordinary peasant cannot' (Hyden 1988, page 9).

However, even if credit were cheap and risks more manageable most households still could not expand production significantly because, with existing technologies, the labour constraint is the binding constraint (Cleave 1974; Kamuzora 1984; Leach 1988) and the virtual absence of a rural labour market makes it hard for households or firms to hire additional labour, except on a small scale, temporary or seasonal basis. This is because:

'most (rural) households do not participate in any labour market. Few households have employmentrelated migration experience, and the number of household members who work either in the farm labour market within the village or in any labour market outside the village is negligible'

(Collier et al 1986, page 44).

While this problem is not new (Lwoga 1987) it may have intensified in recent tears. Several sisal plantations reported recruitment becoming more difficult (12) while the Chairman of the Tea Growers' Association told its 1988 Annual Meeting that:

'For many current years tea production in Tanzania has steadily declined and the main cause has been shortage of labour particularly plucking labour. As much as 30% crop shortage has been attributed to this cause.'

(Matemba 1988)

Further confirmation comes from a comparative study of ILO Special Public Works Programmes (SPWP) in five countries which reported that although enough manpower was generally available even at wages 'below the minimum agricultural wage' this was not the case 'in some project areas, like those in the United Republic of Tanzania' where the minimum wage was not able 'to to attract a sufficient number of workers' (Gaude et al 1987, page 432).

Clearly, in the absence of widespread landlessness, Tanzania's peasants have not turned to rural wage
employment and this is unlikely to change given the recent contrast between declining real wages and salaries and increasing agricultural producer prices. Moreover, in so far as peasant incomes have been squeezed it seems that the response has focused on an expansion of nonfarm activities which, by 1980, accounted for a far larger share of total rural household income (23 percent) than crop sales (12 percent) (Collier et al 1986, page 76) and there is evidence to suggest that this share may have increased even further since then (Havnevik 1983; Smith 1987).

Although the inability to purchase additional labour may be the the most common binding constraint on production, many other inputs are also difficult to obtain. This is especially true of imported inputs whose economic use is being severely constrained by the rapid devaluation of the Tanzanian Shilling and the resulting problems are compounded by rising real interest rates and weak international commodity prices. The result is certainly not conducive to a rapid expansion of output. Indeed, one expert has recently noted somewhat ominously that 'as farmers fail to buy inputs for their farms, agriculture is likely to suffer and thus the country's economy at large' (Hyden 1988, page 9).

All of these factors make it unlikely that the majority of rural households will be able to increase their production enough to turn the ERP's initial negative impact into a positive one. Worse still, the households that suffer the biggest initial losses are also likely to be the ones that will find it more difficult to compensate for these losses by increasing output. The types of households that are at greatest risk in this process need to be clearly identified for policy purposes.

Distance from major markets or shipping ports is possibly a household's greatest liability under the ERP, which augurs ill for the policies likely effect on rural to urban migration. This is because the new approach has effectively abandoned earlier attempts to create a relatively integrated national economy through a panterritorial pricing system that equalised farm gate prices without regard to transport costs, thereby ensuring that the costs of remoteness would be shared widely. This allowed peasants in remote but fertile regions of the country to become major food suppliers to the urban markets, but it also resulted in a structure of production that further increased Tanzania's high unit transport costs, increased the import intensity of food production and made the economy more vulnerable to external shocks such as the oil crisis. Moreover, while this policy did confer substantial benefits on many peasants living in remote areas of the country, it also placed them in a position where their economic viability was critically dependent on the continuation of that policy. Their position was a perfect analogy of Tanzania's eventual dependence on aid flows from abroad.

When panterritorial pricing was abandoned, in the context of the shift to the ERP, the impact of that change was further amplified because in the meantime transport costs had risen sharply due to successive oil crises and were now rising further as a result of a disintegrating road network, an aging and unreliable vehicle fleet, high interest rates and a plummeting exchange rate. Indeed, between 1985/86 and 1987/88 transport was the fastest growing item in the National Consumer Price Index, rising by well over 100 percent (see Fn7). As a result, peasants in remote areas have suffered severe losses and will find it very difficult to recover these within the context of the ERP. It would be ironic and disastrous if they respond by migrating to the urban centres in large numbers but this seems all too likely an outcome under the circumstances.

One other irony should be noted. The much deplored former economic cost of subsidising the remote peasants may soon reappear in the form of rents accruing to wealthy, large farmers operating close to the cities. Three factors will virtually ensure that outcome. The urban food supply will remain tight for the foreseeable future; the consequent high urban price will have to reflect the costs of the marginal, remote farmer; and transport costs will continue to be very high for a long time to come. No wonder
that a 'new generation of such (largescale) farmers .. is emerging .. (who) are establishing themselves in
the vicinity of urban centres' (Hyden 1988, page 9). Most ironic of all, in view of the orthodoxy's
central emphasis on the alleged exploitative role of urban and bureaucratic elements, is the fact that it is
only now that these elements can really start extracting surplus on a grand scale. Thus, this 'new class
of wealthy individuals' turns out to be 'drawn primarily from retired party and government officials'
(Ibid., page 9).

Households using relatively import intensive methods of production are also especially vulnerable to
the ERP since it is explicitly designed to reduce the use of imported inputs by raising their relative
domestic price through devaluation. Even though this is a laudable objective in the light of Tanzania's
desperate balance of payments position, the immediate result will be disruptive and damaging for those
households most directly affected and will certainly inhibit their ability to expand output. While one
might not expect this to be a major factor in an economy where 'smallholding size is determined by the
predominant handhoe technology' (Collier et al 1986, page 53), the issue is, nevertheless, of
significance.

This is because Tanzania's agricultural production and marketing system is generally quite import
intensive despite its generally unsophisticated technological level, partly because transport costs are so
high. Thus, the production and marketing of of maize, which is Tanzania's most important food crop
and is grown by most rural households, uses imports whose value equals 45 percent of its import parity
price (Table 11). This proportion is generally high with a few exceptions like coffee and cashews. For
most other crops it ranges from 25 per cent for cotton to 62 percent for NAFCO (13) rice. The ERP
will have a significant impact on all of these and that impact will become more evident over time since
the price increases following upon the first devaluations will have been somewhat obscured by the
prior existence of high parallel market prices, so that at that stage official prices would merely have
been catching up with parallel market prices. There is no such buffer to absorb the shock of subsequent
devaluations as people were clearly discovering by the end of 1988.

Table 11: Tanzania: Import Requirements of Crops 1981/82 (Import requirements as Percent of
Export/Import Parity Price)

<table>
<thead>
<tr>
<th>Production</th>
<th>Processing</th>
<th>Transport</th>
<th>Export crops:</th>
<th>Inputs</th>
<th>Costs</th>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Hard coffee</td>
<td>10</td>
<td>4</td>
<td>1</td>
<td>5</td>
<td>25</td>
<td>10</td>
</tr>
<tr>
<td>20</td>
<td>19</td>
<td>8</td>
<td>47</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>13</td>
<td>45</td>
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<td>1</td>
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<tr>
<td>15</td>
<td>7</td>
<td>5</td>
<td>27</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food crops: Marketed maize</td>
<td>18</td>
<td>4</td>
<td>23</td>
<td>45</td>
<td></td>
<td></td>
</tr>
<tr>
<td>cassava</td>
<td>0</td>
<td>4</td>
<td>41</td>
<td>45</td>
<td></td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>4</td>
<td>58</td>
<td>NAFCO Wheat</td>
<td>35</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>14</td>
<td>62</td>
<td>NAFCO Rice</td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>9</td>
<td>15</td>
<td>51</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Fertilizer, agrochemicals, tools, machines, fuel, management Machinery, spares, renewals, fuel, process inputs, packaging
Trucking, railway and shipping renewals, fuel
Since the ERP discriminates against those using import intensive technologies, it will tend to have a negative impact on the few large, capital intensive farming operations in Tanzania (14) including the parastatal farms. However, this will not be true for operations that produce export crops, that use foreign exchange to cover their costs, or that can acquire land whose locational advantages will yield substantial rents.

Finally, the ERP's impact is not only uneven as between different types of rural households, but also as between different members within households. This both raises a problem of equity and places a further potential obstacle in the way of the production increases on which the success of the entire policy depends so critically.

It is clearly inequitable that women, and therefore children, will bear the brunt of the immediate losses resulting from production cost increases because women are usually mainly responsible for subsistence food production, and share relatively little in cash crop incomes. This means that even in the small proportion of households in which the net increase in cash crop income is larger than the increase in production costs, women may still have fewer resources available for meeting the family's subsistence needs; in households that suffer net income losses their position will be correspondingly worse.

This division of labour within households may also place a further potential obstacle in the way of achieving an overall increase in production because it impedes the intrahousehold transfer of labour from subsistence to cash crops while undermining the nutritional status of the family as a whole. Given the difficult situation in which most rural households now find themselves, such a decline in nutrition could reduce the household's capacity to work efficiently and, therefore, threaten to trigger the most dangerous vicious circle of all.

These trends are further exacerbated by the public expenditure cuts that are associated with the ERP and that are likely to reduce the level of health care and the quality of education services, thereby making it even more difficult for women to meet their child care responsibilities. These factors, taken together, have meant that the good harvests that followed the introduction of the ERP were not translated into significant nutritional gains in the rural areas and have probably been associated with declines in such levels in the urban areas.

A UNICEF study which reported that between 1984 and 1987 the incidence of severe child malnutrition had declined sharply in those areas implementing the 'Joint WHO/UNICEF Nutrition Support Programme (JNSP)' also noted that 'the situation in other parts of the (Iringa) region remained similar to the one in the JNSP area before starting the programme' and the other areas surveyed had similar experiences (UNICEF 1988b, pages 11,12). More generally, this same report concluded that:

'Underlying causes of women's poor condition are inadequate health services, care for pregnant women, food security. In recent years, it is likely that these underlying conditions have worsened for women in urban areas. In rural areas, the situation is more ambiguous (15). .. Workburdens may have increased as a result of the .. economic recovery measures'


If the point being made here were simply that most peasants could expect to experience some hardship and considerable uncertainty and dislocation as a result of the ERP, one could quite legitimately reply...
that this does not provide an adequate basis for judging the policy since it fails to take into account the
problems these producers would have faced in the absence of the ERP. Indeed, this dislocation could
be regarded as evidence that peasants are actually being induced to adjust and intensify their efforts in
accordance with the real needs of the economy.

However the argument is not simply deploring the hardship and dislocation engendered by the ERP. It
is suggesting that the acceptance of these hardships is most unlikely to lead to a successful outcome
largely because, given the characteristics of Tanzania's rural households and the conditions within
which they have to organise production, the immediate net impact of the price changes associated with
the ERP will generally have been negative, especially if one excludes the fortuitous effect of the recent
good rains. Furthermore, most households will find it very difficult to reverse that result by increasing
their marketed output. The next section will examine the output increases that have actually been
achieved and consider the likelihood of future increases.

**The ERP's impact on agricultural supplies**

These rather pessimistic assessments of the price elasticity of total agricultural supply appear to be
contradicted by the relatively good results achieved in food crop production in the first years of the
ERP (see table 8). In those years harvests were relatively good in most areas and food crop deliveries
through official marketing channels rose sharply while food imports declined (Tanzania actually
exported maize in 1987/88); export crops fared more unevenly, with cotton showing a dramatic
increase but other crops experiencing much less satisfactory outcomes (see table 9). Despite the
continuing problems of the export sector these results appear to provide a basis for some modest
optimism.

Such optimism would not be well founded, however, since these production increases largely reflect
the sector's return to a long term trend rate of growth from which it had deviated during the disastrous
years of the early 1980s. In so far as that is the case, those high growth rates are not the result of the
ERP's incentive policies nor can they be extrapolated into the future. Good rains and an increased
availability of imports, that were briefly affordable and that were associated with the ERP, were far
more important than increased producer prices or liberalised markets for those early gains.

It is impossible to show definitively that recent increases in agricultural output do not represent a
significant change in the sector's long term trend rate of growth because in agriculture annual
fluctuations make it impossible to identify significant trend changes from time series extending over
only two or three years (Casley and Lury 1986, Box 8.1). This problem is compounded in Tanzania's
case since its data for total agricultural output is so unreliable that there is considerable uncertainty both
as to long term trends and as to the output estimates for the last few years, because estimates of
subsistence output are so unreliable. Several studies have ultimately come to the conclusion 'that we do
not have reliable estimates for agricultural production' (Stewart 1985, page 23) or that, since 'there are
no reliable statistics on food production in Tanzania .... the economic performance of the food
producing sector is a matter mainly of speculation' (Moore 1984, page 13).

However, in the absence of firm data policy must be is based on best estimates. For this discussion, the
estimates that were used by those who were instrumental in formulating the ERP are particularly
relevant since they constitute the empirical basis on which that policy is based. Hence it is of particular
interest that the Bank's 1984 Country Memorandum, which strongly urged the adoption of an orthodox
adjustment policy, described Tanzania's long term agricultural performance in this way:
'Overall per capita agricultural production appears to have kept pace with population growth up to 1978, but it has since fallen off. ... The statistical basis of the estimates of subsistence production is weak and the trends may be exaggerated. However, average GDP growth rates in agriculture of 3.5% per annum are consistent with findings that rural standards of nutrition do not appear to have fallen for most of the past decade' (World Bank 1984a, #2.7, page 20).

These estimates provide the base line against which the ERP's advocates must compare the sector's post ERP experience. Compared to a long term trend rate of agricultural growth of 3.5 percent per annum, recent growth rates for maize have been high but have brought its total output only just above the level that would have prevailed had it grown at 3.5 percent through the disastrous early 1980s. In fact it its average growth rate between 1978/79 and 1986/7 has been 4 percent (Table 12). Given that export crops have generally done less well, apart from cotton, the overall performance of agriculture is now roughly back on the long term trend line that was identified by the Bank in 1984.

Table 12: Tanzania: Growth of Maize Production: 1979/80 to 1986/87 (Index 1978/79 = 100)

<table>
<thead>
<tr>
<th></th>
<th>79/80</th>
<th>80/81</th>
<th>81/82</th>
<th>82/83</th>
<th>83/84</th>
<th>84/85</th>
<th>85/86</th>
<th>86/87</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual Index</td>
<td>100</td>
<td>107</td>
<td>96</td>
<td>96</td>
<td>113</td>
<td>122</td>
<td>129</td>
<td>137</td>
</tr>
<tr>
<td>Index if 3.5% p.a. growth</td>
<td>104</td>
<td>107</td>
<td>111</td>
<td>115</td>
<td>119</td>
<td>123</td>
<td>127</td>
<td>132</td>
</tr>
</tbody>
</table>

Source: Calculated from Table 8

This interpretation receives further support from other evidence which suggests that although 1987/88 was another very good year, by 1988/89 the exceptionally rapid growth rates recorded from 1985 through 1988 were levelling off and had returned to a rate much closer to the long term trend rate. Both available production estimates and data on rural parallel market prices, as contained in the Monthly Reports of the FAO/Kilimo 'Crop Monitoring and Early Warning Unit' clearly suggest such a picture. Early reports refer to the 1988/89 crop as 'moderate' and project a 'reasonable harvest' but note with some concern that rural prices for maize were 'much higher than what was reported last year over the same month' and

'rural prices for all cereals .. were also significantly higher than those reported last year over the month of October. .. Considering that the marketing season is approaching its peak .. it could be inferred that less supplies were released by the farmers to the rural markets and hence a continuing upturn in the rural prices' (Ibid., October 1988, page 9)

As regards official purchases of food the situation was generally described in cautious terms with National Milling Corporation purchases of maize 'much less to what was purchased during the corresponding period last year', while cooperative purchases which are to take a much larger share of the trade are described as 'very sluggish' while their lack of dynamism is termed 'most unfortunate' since 'aggressive and brisk purchases by the cooperative unions .. was a critical element in the entire food marketing strategy' (Ibid., Oct 1988, pages 17,18).
Certainly the production increases recorded since 1983/84 have been significant and encouraging and may yet prove to be the beginning of a significant new trend. Their biggest effect was to bring marketed output back into official market channels, so that the NMC’s maize purchases skyrocketed by over 150 percent between 1984/85 and 1987/88 (Table 13).

**Table 13: Tanzania: NMC Purchases of Main Staples (1979/80-1987/88) % ('000s mt)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Maize</th>
<th>Rice</th>
<th>Wheat</th>
<th>Year</th>
<th>Maize</th>
<th>Rice</th>
<th>Wheat</th>
<th>79/80</th>
<th>161</th>
<th>30</th>
<th>27</th>
<th>83/84</th>
</tr>
</thead>
<tbody>
<tr>
<td>81/82</td>
<td>89</td>
<td>15</td>
<td>23</td>
<td>85/86</td>
<td>178</td>
<td>16</td>
<td>50</td>
<td>82/83</td>
<td>86</td>
<td>21</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>31</td>
<td>86/87</td>
<td>173</td>
<td>11</td>
<td>34</td>
<td>87/88</td>
<td>194</td>
<td>37</td>
<td>42</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Tanzania Economic Trends, Vol1: No2, Table 12c

This dramatic shift of produce into official markets reflected both the increases in producer prices and the lower parallel market prices that resulted from improved supplies in the rural areas. By 1986 these had been brought down below official prices in the case of maize, but those for rice and wheat remained persistently above that level (Table 13).

**Table 14: Tanzania: Official Prices as Percent of Open Market Consumer Prices: Quarterly 1985 to 1988**

<table>
<thead>
<tr>
<th>Maize</th>
<th>Rice</th>
<th>Wheat</th>
</tr>
</thead>
<tbody>
<tr>
<td>34</td>
<td>41</td>
<td>33</td>
</tr>
<tr>
<td>100</td>
<td>40</td>
<td>60</td>
</tr>
<tr>
<td>44</td>
<td>50</td>
<td>53</td>
</tr>
<tr>
<td>93</td>
<td>49</td>
<td>73</td>
</tr>
<tr>
<td>62</td>
<td>109</td>
<td>43</td>
</tr>
<tr>
<td>45</td>
<td>125</td>
<td>53</td>
</tr>
<tr>
<td>51</td>
<td>103</td>
<td>46</td>
</tr>
<tr>
<td>67</td>
<td>59</td>
<td>74</td>
</tr>
</tbody>
</table>

Source: Tanzania Economic Trends, Vol.1, No. 2, Table 11

This increased supply to official markets allowed maize and rice imports to be substantially reduced, although those of wheat have remained relatively high (Table 15). These are encouraging results but it is still premature to extrapolate these successes into the longer term though these increases in output will have eased the short term impact of the ERP on rural households.

**Table 15: Tanzania: Food Imports 1979/80 to 1987/88 ('000s tonnes)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Maize</th>
<th>Rice</th>
<th>Wheat</th>
</tr>
</thead>
<tbody>
<tr>
<td>81/82</td>
<td>89</td>
<td>15</td>
<td>23</td>
</tr>
<tr>
<td>84/85</td>
<td>178</td>
<td>16</td>
<td>50</td>
</tr>
<tr>
<td>85/86</td>
<td>194</td>
<td>37</td>
<td>42</td>
</tr>
</tbody>
</table>
While this evidence suggests that the agricultural sector has probably returned to its long term trend rate of growth, after several years of unusually high growth as it recovered from the slump of 1981/83, it is possible that the ERP has shifted the sector on to a new higher growth path, so that the slow down of 1988/89 is merely a temporary deviation from a new trend. Since this cannot be empirically established, are there good empirical or theoretical reasons to believe that the ERP will have such an impact on Tanzania's rural economy?

It has been shown that there are structural reasons why most of Tanzania's rural households will find it difficult to respond positively to the challenges posed by the ERP, largely because the net effect of the various price changes is negative unless they are able, despite this, to raise production substantially. In short, the price incentives that are so much discussed are more ambiguous than they appear at first sight. However, even if one leaves this problem aside, how likely is it that significant positive price incentives would lead to a significant increase in total agricultural output?

A 1985 literature review commissioned by the World Bank to summarise the available evidence on the price elasticity of agricultural supplies in SubSaharan Africa concluded that although 'price and exchange rate policy has an impact on agricultural production .. these policies are not the most important factors affecting agricultural growth'. Indeed, by themselves "appropriate" price and exchange rate policies would have a relatively small impact on agricultural growth' (Cleaver 1985: Abstract).

The World Bank's 1984 Country Memorandum draws the same conclusion specifically for Tanzania. In discussing the changes needed to stimulate agricultural production the Report begins by acknowledging our considerable ignorance regarding the relative importance of prices as compared to other possible determinants of the level of agricultural output. Hence it notes that:

'when production trends are examined on a crop by crop basis, the data reveal very little consistency in the supply response of crops to various factors such as drought, declining prices, villagization and new marketing arrangements'

(World Bank 1984a, #2.13, pages 23)

It goes on to warn against the danger of using crop specific data to estimate the price elasticity of total agricultural supply, since:

'Farmers can and do change cropping patterns in response to changes in price signals, and the evidence suggests that farmers did exercise this option during the 1970s but general conclusions cannot be reached from data on partial elasticity responses since the issue is not between crops, but the total elasticity of agriculture'
On balance the Report does not see any possibility of large production increases being achieved in Tanzanian agriculture without 'substantial increases in investment'. Indeed it states firmly that 'in the absence of such investments, an increase in producer prices ... will not help to raise agricultural productivity or increase total production' (World Bank 1984a, #2.20, page 27).

Of course, if the nature of the investment required to deal with these problems were reasonably well known this might turn out to be a relatively positive conclusion since it would leave only the problem of finding the finance. Unfortunately, the authors of the Report do not believe this to be the case. Indeed, they clearly believe that Tanzania's problems are so severe and complex that currently available investment packages are clearly not adequate and especially not in the short term, since 'export crop production .. faces major longterm problems of deterioration of productive capacity which will need both time and substantial resources to rehabilitate' (World Bank 1984a, #4, page ii). Of course, this makes it impossible for the Bank also to believe in a high price elasticity of total agricultural supply but, unfortunately for Tanzania, that is an essential condition for the success of the ERP.

Other passages in the 1984 Memorandum reinforce the idea that Tanzania's agricultural sector suffers from deepseated structural problems that will not be easily rectified.

'>All farmers produce a variety of food and cash crops mainly in order to maximize the benefits per unit area and also to minimize the losses in case of drought and disease. Most farm families rely on human labour as a source of energy to accomplish various activities. Therefore the capacity to increase production is limited by the size of family and the tools available. Other constraints include the lack of technologically suitable and economically rewarding crop packages'

(World Bank 1984a, #2.5, page 19)

'>Emphasis on the pricing and marketing issues should not be allowed to distract attention from other longer term constraints to agricultural growth. These include the backward technology of smallscale farming, environmental conditions which limit the use of oxdrawn cultivation equipment and unreliable or inadequate rainfall'

(World Bank 1984a, #2.18, page 26)

In effect the Report accepts that it is not at all clear that many commercially viable opportunities for agricultural investment now exist in Tanzania. Indeed, it argues that 'smallholder production has been severely constrained by the absence of technological packages adaptable to local conditions' (Ibid, #2.19, page 26) and calls for 'substantial increases in investment .. to improve the technical options available to producers' (Ibid, #2.20, page 27).

This is a devastating conclusion for the ERP since it means that, given existing technical options, there is only limited scope for increasing agricultural supply through additional investment. Moreover, the assertion that such investment would become feasible once an appropriate technological package was developed, is obviously no more than a pious hope, and is certainly a precarious basis for a development strategy that could easily lead to disaster if that hope is not fulfilled.

In short, there are few grounds for believing that the ERP will usher in a new, more prosperous era for Tanzania's peasants or for the economy as a whole. It is far more likely that the high hopes invested in
this initiative will be disappointed, leaving Tanzania deeper in debt, more politically polarised and
more socially divided. Unfortunately, when that happens the orthodox analysis is well prepared to
learn the wrong lessons yet again. This it will do because if a significant agricultural supply response
does not materialise and Tanzania's macroeconomic problems continue to escalate, then the attempt to
maintain high real producer prices will have to be abandoned yet again. The orthodox analysis will
then insist on treating this as the wilful act of that corrupt and venal 'urban coalition' that currently
serves as a convenient scapegoat and obviates the need for a more serious analysis of the contradictions
that have repeatedly led to the need for such policy reversals.

The ERP's rationale rests on the assertion that agricultural producer prices could and should have been
much higher than they were; and that the introduction of more market oriented policies would raise
those prices and stimulate a large and economically efficient increase in agricultural production. The
remainder of this paper will show that, contrary to many claims, there is actually very little empirical
basis for the belief that market forces would lead to significantly higher producer prices. While this
argument may appear redundant since it has already been shown that such higher prices could not be
expected to produce the supply response needed to make the ERP a success, it is nevertheless important
because it shows that the ERP's problems do not just derive from an excessively optimistic estimate of
the price elasticity of total agricultural supply, but stem from a misconceived and distorted analysis that
contains a number of internal contradictions and that bases itself on empirical evidence that is far too
weak to support its claims. Market forces could systematically raise rural producer prices if there were
enormous urban rents to be reallocated. Two types of evidence are mainly used to support the claim
that this is, indeed, the situation: one suggests that urban-rural income differentials have widened and
that the terms of trade facing rural producers have deteriorated; and the other shows that parastatal
marketing margins have grown excessively over time.

**Market forces and real producer prices**

The claim that an urban coalition has exploited agricultural producers by manipulating prices is a key
component of the analysis underlying the ERP. This neoclassical version of the 'unequal exchange'
argument contends that rural producers are exploited because they receive less than they would under
competitive market conditions and this unfair and inefficient misappropriation of economic rent
reduces both growth and welfare. Market forces would, therefore, systematically raise rural producer
prices because they would reallocate these rents as profits to the peasants.

This reassertion of classical welfare economics is open to a number of well known objections when it is
applied to the real, imperfect world. The theory of the second best shows that in a highly imperfect
world it is impossible to know whether the removal of some market imperfections will lead to either
increased efficiency or welfare (16). This means that even if one were able to curb the ability of these
urban interests to manipulate agricultural prices, one might thereby merely create a situation in which
other interests (possibly trading or international interests) might find that they were now able to
manipulate prices even more effectively. The net effect of such a policy change would therefore be
indeterminate.

A second fundamental theoretical objection challenges the claim that market forces and market prices
are an adequate basis on which to make, or to assess, strategic allocative decisions that have extensive,
long term consequences (17). Indeed, the orthodox argument itself clearly recognises that an efficient,
welfare maximising society must frequently mobilise investible surpluses for uses that may not reflect
the choices individuals would make in response to existing market prices (18). Indeed, much of the
investment identified by the World Bank as vital to long term agricultural growth falls into this
category, including such things as: research into more effective rural technologies; building an efficient infrastructure and creating an appropriate education system. As noted in a recent World Bank Staff paper dealing with agricultural pricing policies:

'Policy advice to resort to "border pricing" .. must be modified if the government wishes to generate revenue from the agricultural sector'  
(Singh et al 1985, page iii)

This has important implications for any assessment of price relativities since it means that there are good reasons for agricultural producer prices to diverge from market (or import parity) prices. The central issue is not, therefore, the existence of such disparities but their rationale and the effectiveness with which the resulting surpluses are allocated. Moreover, if the extraction and strategic allocation of surpluses in accordance with some coherent perception of the long term national interest is a central function of the state in the developing world, then policy must also recognise the importance of building institutions and supporting political processes that foster the growth of strong, stable 'encompassing coalitions' (19) to fulfil this vital function. Unfortunately, policies like the ERP are deeply at odds with such objectives.

These objections imply that a widening urban-rural income gap or a deterioration in the terms of trade facing rural producers does not necessarily show that urban interests are misappropriating economic rents to the detriment of efficiency and welfare. Moreover, they show that even if this were the case one could not therefore conclude that the problem would be solved by 'market forces', or by ensuring that the peasants confront prices that reflect the 'full international value' of their inputs and outputs (20).

These same theoretical objections also serve as a reminder that the neoclassical concepts of rent and exploitation are not empirically measurable, since that would requires one to measure the difference between actual prices and incomes and a purely hypothetical set of equilibrium prices and incomes that would themselves contain unknown and empirically unknowable differentials. Any actually observed price or income differentials could, therefore, be optimal so long as they reflected qualitative and quantitative differences between factors. However, since those qualitative differences cannot be empirically measured, the problem remains unresolvable.

The neoclassical solution to this dilemma is no solution at all. By defining the optimal outcome as that outcome which would emerge in a hypothetical competitive equilibrium it ensures that its policy prescription to liberalise markets becomes universally applicable irrespective of any empirical evidence (21). This is why ERP type policies can be so confidently, so consistently and so universally advocated by orthodox analysts.

Once one accepts this framework of analysis the basic conclusion that markets should be liberalised effectively becomes a statement of faith. The use of empirical evidence frequently becomes heavily tautological in this context. Market restrictions are identified; the associated differentials are measured and defined as 'distorted' and, therefore, as containing elements of economic rent; the existence of those rents in turn becomes the basis for demanding the removal of those market restrictions. The reality of this problem may become more clear if one considers the changing way in which the orthodox analysis has treated urban-rural income differentials over time.

The orthodox analysis, and specifically the main multilateral financial institutions, discovered the 'problem' of the urban-rural gap and the venal, shortsighted urban coalition at about the time when it became clear that the vast flood of capital and import intensive projects that it had actively supported
and promoted over the previous two decades could no longer be sustained, or even operated, in large parts of the developing world under the international economic conditions that emerged in the 1970s.

Evidence of growing urban-rural disparities associated with the emergence of westernised, internationally integrated urban economies in the developing world had long been denounced by dependency theorists as a central and dangerous feature of neocolonial development, leading to import intensive, 'dependent' economic structures that could only survive by extracting the foreign exchange needed to run such system out of a hapless peasantry. All through the decades when these structures were actually being created with the full support of the multilateral institutions, the orthodox analysis treated such arguments with disdain. The 'muddle headed radicals' were regularly lectured on such subjects as: why the terms of trade need not turn against primary producers; why debt does not matter in an economy that is growing rapidly enough; why industrialisation through tariff protected multinational subsidiaries is not problematic; and, of course, why the relatively more favourable conditions enjoyed by, what they then called 'the modernising, urban elites', were a necessary inducement for that elite to acquire and use the technical expertise that was considered the key to development.

Claims that peasants and poor countries were 'exploited' by comprador bourgeoisies that worked hand in glove with metropolitan governments and multinational corporations to manipulate markets to their mutual advantage were routinely rejected on the grounds that the observed income differentials probably largely reflected skill and productivity differentials.

Of course, when the orthodoxy finally discovered the problem of the 'urban coalition' it did not therefore accept that radical analysis. Indeed, it managed to turn its new 'discovery' into an argument that the crisis that had by then emerged should be solved by empowering the market. This transformation was achieved by presenting the urban coalitions as essentially domestic, political phenomena and largely ignoring their links with international economic interests. Indeed, they were even portrayed as acting consistently against the logic of the international market, conveniently ignoring the fact that the tariff and licensing measures that were used as evidence for this assertion had been universally demanded by foreign investors in the 1960s. This refurbished argument was so attractive because it had two major advantages. It allowed market forces to be presented as the solution to the crisis and, by focusing on the urban exploitation of the rural sector, it allowed the poorest to be turned against the poor so that the demand for more market oriented policies could be presented ostensibly on behalf of the poorest of the poor, namely the peasantry.

In this context, the urban-rural gap took on a growing significance. Data on urban-rural differentials and on urban-rural terms of trade was now regularly treated as prima facie evidence of this most important and debilitating source of economic distortion, while bureaucrats and unionised workers were widely and happily discussed as the main culprits behind these disastrous developments. Ironically, by the early 1980s, just as this bandwagon was picking up speed, and passengers from all ends of the ideological spectrum, the evidence clearly showed that, whatever might have been the earlier situation, the urban-rural gap was actually declining in most developing countries, at least so long as one excluded the incomes of those urban groups growing extremely rich in the flourishing, deregulated financial markets that accompanied the new orthodox policies.

In Tanzania the evidence shows much more than this, however. It shows that during the decade of the 1970s when the foundations for the crisis of the 1980s were laid: urban-rural income differential had actually declined; the terms of trade had not generally turned against rural producers; and urban wage and salary earners had been the most fiercely squeezed group of income earners in the country. None
of this has had much influence on the orthodoxy's policy prescriptions since these were never actually derived from that empirical evidence but stemmed from the axiomatic assumptions of neoclassical theory.

Ironically, Tanzania's pre-ERP policies had actually taken the problem of urban-rural disparities seriously and had attempted to build the sort of 'encompassing coalition' needed to pursue a coherent, long term development strategy. Indeed, the country's extraordinary political stability partly reflected this sustained attempt to contain urban-rural differentials through a range of policies including: a severely restrictive urban incomes policy applied from the early 1970s; a panterritorial pricing policy, that heavily subsidised peasants in remote regions of the country; and the maintenance of substantial price incentives for food producers after the crisis of 1974/75, even under extremely difficult macroeconomic conditions. Even if these efforts had not succeeded in the sense of narrowing urban-rural differentials and keeping urban-rural terms of trade from shifting against rural producers, it would seem that the persistent implementation of such painful and politically costly policies under very difficult conditions would effectively undermine the plausibility of the claim that Tanzania's economic crisis resulted primarily from the wilful urban bias of its government. The fact that these policies actually succeeded to a remarkable extent as will be shown below strengthens that conclusion considerably.

Within this context, the empirical evidence most widely used in the debate will now be briefly summarised. Three measures will be reviewed: changes in urban-rural income differentials over time; the absolute size of the gap between urban and rural household incomes; and the changing relationship between administratively determined urban incomes (ie primarily wages and salaries) and administratively determined rural incomes (ie mainly crop sales through official channels). This evidence shows that in Tanzania urban-rural differentials declined significantly between 1970 and 1983; the terms of trade did not turn significantly against rural producers during the 1970s; and urban wages and salaries declined much more dramatically than official crop prices between the early 1970s and the early 1980s.

A comparative discussion of trend changes in average urban and rural incomes must begin by noting that the data is generally of poor quality; that the income units being compared are often poorly defined and rarely stable over time; and that urban business incomes are particularly badly represented in these comparisons because data on these is virtually nonexistent. Moreover, given changing household composition, demographic profiles, and patterns of economic activity comparisons of the average incomes of urban and rural households over time must be treated as no more than rough orders of magnitude. However, since such comparisons are widely used to support the rural exploitation thesis, it deserves a brief summary.

Two recent studies, proceeding from quite different assumptions, using different methodologies and based on different data sets both conclude that Tanzania's urban-rural gap declined significantly between 1969 and 1982/84. Both conclude that the gap between the average income of urban and rural households (Bevan et al) and that between wage earners and farmers (Jamal and Weeks) declined by between 25 and 33 percent over this period (Bevan et al 1988, page 82; Jamal and Weeks 1988, page 80).

This broad conclusion is confirmed by other detailed empirical studies. One concludes that 'the (urban-rural) differential almost certainly has narrowed' (Horton 1985, page 29) while the World Bank, despite its attachment to the orthodox argument and its urban exploitation thesis, suggests that between 1966 and 1981 'the gap between industrial and agricultural incomes has narrowed considerably' (World
A recent UNICEF study lends further support when it explains why its special nutrition support programme was now also going to cover some urban areas.

'1976/77 .. data indicated that infant mortality rates were considerably lower in urban areas than in rural areas .. and that economic and social conditions of households were better in urban areas. The programme, concentrated on the alleviation of the most pressing problems, was therefore focussed in rural areas. Since that time, conditions in urban areas have deteriorated significantly, and at a rate such that urban/rural differentials have narrowed significantly. It is therefore necessary to consider what support may be needed for the poorest families in the urban areas' (UNICEF 1988b, page 34)

Although some authors have sought to attach significance to the fact that, within this long term decline there have also been periods when that urban-rural gap has widened (Bevan et al 1988) this would seem hardly surprising given the fluctuating nature of rural incomes, especially in a country with such highly variable and unpredictable rains.

It is important to note that this differential was narrowing all through the period when the urban coalition was allegedly triggering the crisis by its rent seeking activities. In fact this evidence does not support that thesis. What it actually shows is that the government's attempt to use its incomes policy to narrow urban-rural differentials appears to have been quite successful. The fact that this success was achieved under such difficult circumstances is all the more impressive since such an objective would clearly have been far easier to achieve in an expanding economy simply by allocating a disproportionate share of gains to the rural sector. As it was, it was done in a violently contracting economy, by allocating a disproportionate share of losses to the urban sector. Since this is politically far more difficult and costly it constitutes a particularly decisive refutation of the orthodox claim that the rent seeking activities of the 'urban coalition' were at the root of Tanzania's economic crisis.

While there is general agreement that income differentials have narrowed, there is little agreement on the question of the absolute size of the income gap that remains between urban and rural households. Several studies have concluded that the average peasant family may now be as well or better off than that of an unskilled urban wage earner. The ILO (1982) had reached this conclusion and most recently this has been echoed by Jamal and Weeks (1988) who concluded that:

'When self-provided housing and fuelwood is included in rural income and charges for nondiscretionary items transport, lighting, water are included on the urban side, we reach the conclusion that in real welfare terms there was very little to choose between the consumption levels of a minimum wage earner family and a rural family in Tanzania in 1982. Even against the average wage earner family the gap was probably no more than a few percentage points' (Jamal and Weeks 1988: pages 80,81)

The World Bank 1984 Memorandum also reached this conclusion noting that urban-rural income differentials had 'narrowed considerably' and that 'at the bottom of the scale a subsistence farmer is now probably better off than an unskilled industrial worker' (World Bank 1984a, #2.42, page 34).

Some have challenged these conclusions (Rugumisa and Semboja 1984; Horton 1985), with one study going so far as to suggest that in 1983/84 the average urban household still earned 2.9 times the real income of the average rural household (Bevan et al 1988, page 82). Despite the enormous disparity between this and earlier estimates the difference can be relatively readily explained. The Bevan et al
(1988) estimate is so much higher than that of Jamal and Weeks (1988) because it uses 'the average urban household income' while Jamal and Weeks use that of a minimum wage earner; it values subsistence production at farm gate prices instead of at urban retail prices; it includes 'other business income'; it makes a very significant, though ultimately rather arbitrary 'adjustment' to the National Consumer Price Index; it measures rural incomes in the disastrous year of 1982/83 and then compares those with 1984 urban incomes.

Much of the difference is therefore due to the fact that different things are being compared in the two studies. Much of what difference remains would be due to the use of 1982/83 as the year in which to measure rural incomes. Both production and official price levels were at their lowest ebb at that time (see tables 6 to 9); indeed just two years later the total value of the country's maize crop, valued at real official producer prices, was no less than 70 percent higher than it was in 1982/83! Any remaining disparity would be more than accounted for by the 'adjustment' that was made in the NCPI which undoubtedly also reflects the extreme conditions prevailing in 1982/83 with respect to consumer goods shortages.

In any case the Bevan study was not designed to make welfare comparisons which is why it would not have used urban retail prices to value subsistence output and why the authors note that 'no correction is made for differences between the cost of living in urban and rural areas due, for example, to housing and public services' (Ibid., page 82). Indeed they issue a special warning against placing too much faith in 'the absolute value of the urban-rural income differential, as opposed to its trend', although they also point out that even the latter cannot be regarded as more than a rough order of magnitude because:

'Constructing data series and inferring time trends from a sequence of independent, oneoff surveys is necessarily a somewhat speculative business. The surveys differ not only in coverage (excepting the trace component), sampling frame, design of questionnaire and instructions to enumerators. They also differ in the procedures used to tidy up the data and in the definitions used to construct economic categories. We have made a number of adjustment to improve comparability but these have inevitably been incomplete. In particular, we have not yet been able to standardise the income concept across the surveys. As a result, even relatively large differences may be spurious, and some features of the series may be unreliable (emphasis added)

(Bevan et al 1988, page 65)

In the final analysis it is probable that the average urban household's income remains a little higher than that of the average rural household, but that this is no longer true when one compares the incomes of unskilled urban workers. In any case, given the substantial and rapidly changing intrarural and intraurban differentials it is not at all clear what statistical or analytical significance could be attached to any remaining differences between incomes averaged across the entire rural and urban sectors. The issue has little bearing on the question of whether the urban sector is exploiting the rural economy through the administrative manipulation of prices.

The evidence which tests that urban exploitation hypothesis most directly is that showing the relative movement of those prices and incomes most directly subject to administrative control, namely official crop prices and urban wage and salary rates. Since these are most directly controlled by those urban interests, they should reflect that alleged selfinterested political manipulation that plays such a central role in the orthodox analysis.

A comparison of these two data sets shows that the 'wilful, urban exploitation' thesis has no convincing
empirical foundation in Tanzania. Indeed, the same data that is often used to support the orthodox argument actually shows that the most important administratively controlled variables were consistently and effectively used to protect rural producers under very difficult conditions and to squeeze the urban population, including urban salary earners, at least from the time of the first economic crisis in the mid 1970s. Moreover, this conclusion is in no way altered by the fact that the government maintained some urban food subsidies during most of this period, since the dramatic decline that occurred in real urban wages and salaries occurred despite the existence of those subsidies. Nor is this conclusion affected by the observation that, despite these efforts, the real incomes of rural producers did fall at various times. Given the size of the agricultural sector and the scale and nature of the crisis confronting the economy, this could hardly have been otherwise. Indeed, it is ultimately the absence of any major decline in the real returns to agricultural production that is the most striking feature of the empirical evidence.

The data on urban wages and salaries is quite conclusive in showing that these had been consistently controlled by a tough and uncompromising incomes policy since the early 1970s when the government had come to the conclusion that a disproportionate share of the gains of the first decade of independence had accrued to urban wage and salary earners, especially under the orthodox, liberal economic policies in place prior to the Arusha declaration in 1967 (Bienefeld 1979; Valentine 1984). In the context of that incomes policy urban real wages and salaries had drifted steadily downward ever since 1969, apart from a short lived recovery in 1974 (Table 16). Initially this was designed to allow rural incomes to make good some of the ground they had lost in the 1960s. From the mid 1970s, it became a part of the government's effort to protect the agricultural sector from the worst effects of the economic crisis since it clearly recognised that any recovery would have to be based on increased agricultural output to ease the critical shortages of food and foreign exchange. As the economic crisis intensified in the early 1980s, so the decline of urban wages and salaries accelerated. Indeed, the real value of these incomes declined more than that of any other significant income group.

Average urban real wages declined by 62 percent between 1977 and 1983 (Bevan et al 1988, page 79) and by an almost incredible 88 percent between 1969 and 1986 (Jamal and Weeks 1988, page 85). Somewhat more protection was given to low wage earners, especially in the early 1970s when the crisis was not yet the driving force behind these changes. Average real salaries fell even more dramatically than wages (Valentine 1984) although this effect was offset by 'a big increase in social and financial laborrelated expenses, particularly in the parastatals (food, transport and medical services, low interest loans and housing)' (World Bank 1984a, #2.42, page 34). While these developments clearly reflect the existence of some urban opposition to the government's incomes policy, they do not deny either the direction or the enormity of its impact.

The fact that the government's restrictive urban policies became increasingly difficult to implement as the crisis deepened and extended through time has to be accepted as a reality which eventually brought the policy to its knees. It does not deny the seriousness of the attempt or challenge the potential rationality of seeking to manage periods of temporary severe shortage by means of rationing (Weitzman 1977; Sen 1981); it merely reminds us of the political and administrative limits of any such response.

Table 16: Tanzania: Index of Real Urban Wages: 1969 to 1987

<table>
<thead>
<tr>
<th>Nonagricultural sector wages</th>
<th>Minimum Year</th>
<th>wage</th>
</tr>
</thead>
</table>
The critique of these policies that focuses on the undoubted inegalitarian effects of such evasions, including also the fact that subsidised urban food was not always equally available to all urban groups, makes an important point but one whose policy implications are not as clear as is often implied. It cannot be denied, for example, that under extreme circumstances, it would be economically rational, and in everyone's interest, to allow the country's larger productive and administrative institutions to evade such restrictions to the degree necessary to keep productivity from collapsing altogether, or that this would often be true even for institutions that had initially been unwisely established on the basis of unrealistic and excessively optimistic assumptions. In this context it is important to note that, even with these evasions, real urban wage and salary incomes were reduced more rapidly than productivity so that unit labor costs in industry and in most parastatals fell steadily as the crisis deepened (Bienefeld 1982; World Bank 1984a) an observation that is not easy to reconcile with the neoclassical (or any other) notion of 'exploitation'.

Those who criticise the government's urban incomes policy on the grounds that it was inegalitarian because it 'allowed' such evasions to occur (Rugumisa and Semboja 1983; Msambichaka et al 1983; Horton 1985) need to show either that more effective enforcement would have been politically desirable and feasible, or that other strategies would have reduced such disparities. This would not be easy to do.

The apparently obvious implication of the urban income data is also occasionally challenged on the grounds that the declines implicit in these wage and salary figures were more apparent than real since many urban residents increased their nonwage incomes through urban farming, moonlighting or informal sector activities. Thus a recent study suggests that nonwage incomes have increased sharply as a proportion of total urban incomes from 24 percent in 1977 to 50 percent in 1984 (Bevan et al 1988, page 77). It is largely because this shift had partially compensated for the collapse of wage and salary incomes that this study found urbanrural income differentials to have widened somewhat between 1977 and 1982/83. That latter result has already been discussed, however, even if one were to take that result at face value it could not be used to support the orthodox 'urban exploitation' argument. In fact they suggest that 'market forces', as they found expression in those informal sector activities, were tending to widen the urbanrural differential counteracting the government's attempts to narrow it.

Against this background let us examine the changes that occurred in the administratively determined
prices paid for crops sold through official marketing channels. It is widely alleged that these were consistently and significantly suppressed, but a detailed examination of the study most frequently cited in support of this contention reveals that its data shows no significant decline in the overall terms of trade facing agricultural producers between 1969 and 1979, the very period when the government's policies were allegedly laying the foundations for the crisis of the 1980s. Other data suggests that even when that crisis arrived administered prices squeezed urban incomes much more than rural producer prices.

Given the deficiency of the data some uncertainty must remain as to the precise changes that occurred in these price and income relativities. However, the strength of the prorural bias that emerges from this data is such that this conclusion is likely to be quite robust, especially since it is based on data that was collected in a way that was clearly intended to support the claim that prices had been used to exploit rural producers. In any case the immediate point is that the data most widely used to support the orthodox argument (Stewart 1985; Horton 1985; Sharpley 1985) lends no support to it, especially when the experience of rural producers is placed in an appropriate macroeconomic context.

In the late 1970s a number of studies created a widespread perception that the terms of trade had shifted strongly against agriculture and that rural producers were being grievously exploited in the process. The most widely quoted statistical evidence was contained in two papers by Frank Ellis (1982, 1983), which were in part responding to two ILO Mission reports (1978, 1982) that had cast doubt on the urban exploitation thesis.

Ellis' 1983 paper on 'Agricultural Pricing Policy in Tanzania, 1970-79' calculates both a 'Net Barter Terms of Trade' (composite units of consumption/input commanded by the price of one unit of a crop) and an 'Income Terms of Trade' (composite units of consumption/input commanded by the income from the sale of the total output of a crop) for export crops, domestic crops and total crops. Between 1969/70 and 1978/79, his figures show a deterioration in the net barter and the income terms of trade for both export and total crops, while for food crops they show no trend, although its income terms of trade decline dramatically in the drought year 1974/75 (Table 17).

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Year</th>
<th>Export</th>
<th>Food</th>
<th>Total</th>
<th>Export</th>
<th>Food</th>
</tr>
</thead>
<tbody>
<tr>
<td>69/70</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>98</td>
<td>97</td>
<td>102</td>
<td>188</td>
<td>111</td>
<td>71/72</td>
<td></td>
</tr>
<tr>
<td>95</td>
<td>103</td>
<td>121</td>
<td>105</td>
<td>72/73</td>
<td></td>
<td></td>
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<tr>
<td>96</td>
<td>129</td>
<td>100</td>
<td>76</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>119</td>
<td>79 74/75</td>
<td>64</td>
<td>78</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>66</td>
<td>75/76</td>
<td>91</td>
<td>85</td>
<td></td>
<td></td>
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<tr>
<td>76/77</td>
<td>110</td>
<td>110</td>
<td>103</td>
<td>103</td>
<td>77/78</td>
<td></td>
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<tr>
<td>107</td>
<td>85</td>
<td>103</td>
<td>167</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>75</td>
<td>63</td>
<td>153</td>
<td>73</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Ellis 1983, page 52
Ellis emphasises the generality of the decline when he summarises the evidence on 'the net barter terms of trade of peasant crop producers' which he says have 'deteriorated by 23.2% over the decade of the 1970s ... the decline for export crops was 32.6% and that for domestic food crops 1.8%' (Ellis 1983a, page 31). It would have been rather more accurate to say that these terms had declined for export crops but not for domestic food crops and that the total crops index declines so significantly because it is dominated by the export crops.

Ellis's summary of the income terms of trade data is even more clearly determined to create an impression of consistent decline, despite the awkward fact that his figures show a massive 53 percent increase in the income terms of trade for domestic food crops between 1969/70 and 1978/79. Ellis deals with this 'problem' by pointing out that when the 1978/79 figure is compared to the (absolutely atypical!) year of 1970/71, instead of 1969/70, then that series also shows a decline of 18 percent. On this basis he concludes that the income terms of trade for food crops moved 'in the range +53.4% and 18.3% (hence the need for presenting two alternatives)' (Ellis 1983a: page 31). This procedure appears even more dubious since it was not also adopted in the case of the barter terms of trade for food crops, where a decline (of 2 percent) would have become an increase (of 10 percent) if 1971/72 had been used as the base year.

In fact, the discovery that these results depend so critically on the particular years chosen for comparison should have led the author to use two (or three) year moving averages to reduce the effect of large year on year fluctuations. Had this been done (Table 18), it would have been clear that for domestic food crops neither the barter nor the income terms of trade declined over this decade, although both declined during the crisis in mid decade. For export crops there is a significant decline in the barter terms and the decline output is means amplified in the income terms of trade.

Compared to the real value of nonagricultural wages, food crops compare very favourably, export crops slightly unfavourably while the total crops series is rather similar to the wage series, although with some variations over the decade. If one extends those comparisons forward to 1983, the last year before the shift to the ERP began in earnest, one sees that the squeeze on urban wages intensified as the crisis deepened. By 1983 real urban wage had fallen much further than the real producer prices received by smallholder peasants for their main food and export crops (Table 19) and this remained true even when the rural prices deflator estimated Bevan et al (1988) is used (22).

Table 18: Tanzania: Indices of the Real Value of Agricultural Output and Urban Wages: 1969 to 1979 (Two year moving averages) #(1969 = 100)

<table>
<thead>
<tr>
<th>Per unit value of crops</th>
<th>Total value of crops</th>
<th>Wage Year</th>
<th>Export Food</th>
<th>Total Export</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>Total</td>
<td>Rates 69/70</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>72/73</td>
<td>92</td>
<td>86</td>
<td>91</td>
<td>100</td>
</tr>
<tr>
<td>75/76</td>
<td>82</td>
<td>88</td>
<td>124</td>
<td>90</td>
</tr>
<tr>
<td>77/78</td>
<td>77</td>
<td>77</td>
<td>96</td>
<td>79</td>
</tr>
<tr>
<td>110</td>
<td>102</td>
<td>94</td>
<td>94</td>
<td>83</td>
</tr>
<tr>
<td>93</td>
<td>76</td>
<td>78/79</td>
<td>73</td>
<td>102</td>
</tr>
</tbody>
</table>

wages are based on calendar years hence 72/73 averages data for 1972 and 1973; crop data is based on seasons, hence 1972/73 averages data for 1971/72 and 1972/73. for wages 1969 is the base year; for crops it is 1969/70
Sources: Calculated from Tables 16 and 17
Table 19: Tanzania: Indices of Real Wages and Real Producer Prices: 1978/79 to 1987/88 (Index 1978/79 = 100)

<table>
<thead>
<tr>
<th>Real producer prices Real Year</th>
<th>Maize</th>
<th>Rice</th>
<th>Wheat</th>
<th>Cotton</th>
<th>Coffee</th>
<th>Wages</th>
</tr>
</thead>
<tbody>
<tr>
<td>78/79</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>100</td>
<td>83</td>
<td>80/81</td>
<td>73</td>
<td>91</td>
<td>82</td>
<td>70</td>
</tr>
<tr>
<td>88</td>
<td>77</td>
<td>77</td>
<td>58</td>
<td>62</td>
<td>93</td>
<td>70</td>
</tr>
<tr>
<td>83/84</td>
<td>79</td>
<td>102</td>
<td>74</td>
<td>77</td>
<td>63</td>
<td>110</td>
</tr>
<tr>
<td>85/86</td>
<td>106</td>
<td>114</td>
<td>82</td>
<td>93</td>
<td>84</td>
<td>104</td>
</tr>
<tr>
<td>91</td>
<td>87/88</td>
<td>100</td>
<td>124</td>
<td>75</td>
<td>84</td>
<td>75</td>
</tr>
</tbody>
</table>

Real wages are for calendar years; 78/79 stands for 1979
Sources: Calculated from Tables 6, 7 and 17

That is what the figures as presented by Ellis and used by those advocating the ERP actually show. But some adjustments need to be made to the figures used in the Ellis study and some of these have a significant impact on the outcome. Moreover, all of them tend in the same direction, namely they suggest that the experience of rural producers has been rather more favourable than indicated in that study.

The income data used in the Ellis study is based on 'marketed output, producer prices, and gross incomes for crops purchased through official channels' and this is deflated by an 'adjusted' National Consumer Price Index. Naturally the paper's results depend on the assumptions and procedures that it adopts and these will be briefly examined so that those results can be better interpreted. Three issues deserve special attention: the exclusion of certain food crops from the calculations; the treatment of crops not sold through official channels; and the adjustments made to the NCPI.

The drought resistant crops of millet, sorghum and cassava were excluded from the domestic food crop category on the curious grounds that they should never have been encouraged since, the fact that the parastatals had found them difficult to market, proved that there was no ready market for them. This is, of course, quite irrelevant to an exercise seeking to assess the terms of trade that have confronted rural producers.

Exclusion of these figures substantially distorts the results of the study because, in the words of the author, the substantial price incentives introduced by the government in the wake of the 1974 drought had led to 'the phenomenal growth of several minor (drought resistant) crops' (Ellis 1983a: page 38). In fact, Ellis actually states that the inclusion of 'the new crops and wages paid to estate agriculture' would have 'more than halved' the apparent decline in the income terms of trade for all crops. Since food crops make up only 15 percent of the 'total crops' index, this necessarily implies that the inclusion of these crops would now show the terms of trade for food crops increasing very substantially over the decade. Moreover, as Ellis notes the decline in the income terms of trade for total crops is halved and now lies substantially below the decline suffered by urban wages. Since there is no justification for
excluding the drought resistant crops this must be taken as the true position that is indicated by Ellis's figures.

A further procedure that significantly affects Ellis's results is his 'adjustment' of the urban based National Consumer Price Index (NCPI) to make it a more appropriate deflator for rural incomes. The way in which this is done deserves brief examination if only because it alone is largely responsible for most of the apparent decline in the terms of trade that emerges from these calculations. That means that when Ellis's figures (still excluding the drought resistant crops) are recalculated using the NCPI as a deflator, it becomes impossible to speak of a trend decline in any of the six series with the possible exception of the income terms of trade for export crops (Table 20).

These results emphasise the critical importance of the adjustment made to the NCPI. Ellis rejects the NCPI as a rural deflator because it is urban based. He also rejects the 1982 ILO Mission's argument that since 'peasants do not need to purchase food from outside the rural sector' (cited by Ellis 1983: page 44) one should adjust the NCPI by excluding the food category from it. However, the reasons given for this decision are not convincing or reassuring.

Table 20: Tanzania: Rural Terms of Trade using the NCPI to deflate producer prices: 1969/70 to 1978/79 (Two year moving averages of Index 1969/70 = 100)

<table>
<thead>
<tr>
<th>Year</th>
<th>Export</th>
<th>Food</th>
<th>Total</th>
<th>Export</th>
<th>Food</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>69/71</td>
<td>99</td>
<td>99</td>
<td>99</td>
<td>101</td>
<td>144</td>
<td>106</td>
</tr>
<tr>
<td>70/72</td>
<td>97</td>
<td>95</td>
<td>97</td>
<td>103</td>
<td>156</td>
<td>110</td>
</tr>
<tr>
<td>71/73</td>
<td>97</td>
<td>90</td>
<td>96</td>
<td>105</td>
<td>132</td>
<td>108</td>
</tr>
<tr>
<td>72/74</td>
<td>93</td>
<td>89</td>
<td>93</td>
<td>120</td>
<td>132</td>
<td>114</td>
</tr>
<tr>
<td>73/75</td>
<td>87</td>
<td>91</td>
<td>91</td>
<td>94</td>
<td>114</td>
<td>117</td>
</tr>
<tr>
<td>74/76</td>
<td>97</td>
<td>91</td>
<td>91</td>
<td>107</td>
<td>122</td>
<td>111</td>
</tr>
<tr>
<td>75/77</td>
<td>103</td>
<td>94</td>
<td>94</td>
<td>107</td>
<td>122</td>
<td>114</td>
</tr>
<tr>
<td>76/78</td>
<td>108</td>
<td>97</td>
<td>97</td>
<td>120</td>
<td>122</td>
<td>117</td>
</tr>
<tr>
<td>77/79</td>
<td>108</td>
<td>97</td>
<td>97</td>
<td>120</td>
<td>122</td>
<td>117</td>
</tr>
<tr>
<td>78/79</td>
<td>108</td>
<td>97</td>
<td>97</td>
<td>120</td>
<td>122</td>
<td>117</td>
</tr>
</tbody>
</table>

Source: Ellis 1983

Ellis clearly sets out to adjust the NCPI in an upward direction. He first questions the NCPI itself since it 'implies that the rate of inflation over the decade of the 1970s in Tanzania is lower than either the IBRD International Index of Inflation or the United Nations Index of Unit Values of Manufactured Goods Exported by Developed Countries' (Ellis 1983a: page 44). He clearly regards this as totally implausible but the basis for that belief remains obscure since, for most of the 1970s Tanzania's rate of inflation evidently remained roughly in line with that in the OECD countries. Otherwise the World Bank could not have concluded in 1984 that 'during 1970-78, Tanzania's real effective exchange rate was relatively stable vis a vis its major trading partners' (World Bank 1984a: #A9: page iv) in a period when the country had maintained a relatively fixed nominal exchange rate.

The paper's attachment to a certain preconceived outcome again emerges when the paper rejects the ILO Mission's method of adjusting the NCPI because that approach had the disadvantage' that 'it has the effect of lowering the rate of inflation because the food category is one of the more rapidly growing
categories of the NCPI' (Ellis 1983a: page 44)! On this basis the paper proposes its own 'partial and by no means entirely satisfactory solution' which has no such 'disadvantage'. The proposed index is to include food, but to exclude rents, personal care and hygiene, recreation and entertainment and the miscellaneous category. It is then justified on the grounds that:

'the effect of excluding these from the weights and recalculating the NCPI on the basis of the remaining components is at least to move the index in the right direction (emphasis added) i.e. increase rather than diminish the rate of change of the cost of living'

(Ellis 1983a: page 45)

The final result is, therefore, an index that has been designed specifically to indicate a substantially higher rate of rural inflation than is contained in the NCPI and which accounts entirely for the apparent decline in the rural terms of trade. This is not a reassuring procedure especially since the issue of rural inflation is highly complex and was even more so during the 1970s when basic commodities were price controlled and rationed. Thus the question of which areas received what proportion of their needs at controlled prices always remained highly uncertain and would have been very difficult to summarise even had perfect information been available. In Dar es Salaam in 1978 it was not uncommon for people to claim that many goods in short supply in the urban areas could be better obtained through one's rural relatives. The point is echoed in the responses obtained from the Iringa peasants who were interviewed in December of 1988 and who insisted that basic goods had been more widely available to them 'before' because then they were only intermittently available, but when they were available they could obtain some. Now 'they are always available and we can never afford them'.

But the index that is ultimately used raises other problems. It not only includes food, but it is totally dominated by it and this seems difficult to accept especially since the justification to include food at all is based on a misunderstanding of the issue at stake. Thus, when Ellis argues that the ILO Mission was wrong to exclude food because their 'assumption that peasants do not need to purchase food is incorrect' (Ellis 1983a: page 45), he is subtly distorting the point at issue. The Mission had never suggested that 'peasants do not need to purchase food'; it had argued that 'peasants do not need to purchase food from outside the rural areas' (emphasis added) as Ellis had actually noted earlier in the paper. The difference is crucial since the reason for excluding food from the rural index was that, in so far as peasants do buy food, they buy food from each other and therefore experience both the costs and the benefits of any price changes involved in those transactions (23). On balance, it is therefore difficult to accept the legitimacy of this price index or of the procedure by which it was constructed.

Although the decision to use a deflator including food prices is based on faulty logic, it is possible that the 'true rural price index' would show rural prices rising significantly faster than the NCPI, although this is far from certain given that the large subsistence element in rural consumption is not exposed to such effects.

In any case, there can be no justification for using an adjusted index dominated by food prices, while at the same time using income figures that exclude all income derived from rural, unofficial crop sales. If Ellis's calculations were adjusted to include all rural incomes from parallel market sales, the apparent slight decline in the overall agricultural terms of trade would undoubtedly disappear yet again, largely because there has been a significant decline in the proportion of food crops sold through official channels through the late 1970s and early 1980s. Indeed, by the 1980s the proportion of total maize production sold through official channels is said to have fallen 'well below ten percent in many years' (MDB 1987: page 7).
In this context, the increased volume of smuggling crops across Tanzania's borders also becomes relevant. Although the volume of this traffic cannot be known with any precision for obvious reasons, there is evidence to suggest that it was significant and growing in the decade leading up to the ERP. Certainly those who accept the orthodox analysis would have to agree that this is very likely since they emphasise both the allocative impact of price differentials and the weakness of Tanzania's administrative controls. The dramatic decline in official food deliveries from areas like Arusha after 1978 suggests that this is a plausible supposition. The inclusion of some allowance for this factor in the calculations would further strengthen the above conclusion.

There is yet one final reason why Ellis's calculations misrepresent the true changes experienced by Tanzania's peasants in their overall terms of trade. This results from the fact that his 'total crops' index gives a weight of only 10 to 15 percent to food crops since that is their share in official market sales. Since food crops actually make up considerably more than half of all agricultural production an attempt to estimate changes in the terms of trade confronting the peasantry should really be based on an index that weighted these various types of crop according to their total share in production or, at least, according to their share in total marketed output. In either case, the improved terms enjoyed by food producers, especially when the drought crops are included, would in that case also ensure that the 'total crops' index would also now show a clear improvement. A 'total crops' index that gave food a weight of 40 percent, but still excluded the drought crops and any allowance for parallel market sales once again shows no significant trend decline in the rural terms of trade (Table 21).

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Crops</th>
<th>Total Crops</th>
<th>Total Crops</th>
<th>Total Crops</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>69/71</td>
<td>99</td>
<td>123</td>
<td>118</td>
<td>92</td>
</tr>
<tr>
<td>72/74</td>
<td>110</td>
<td>81</td>
<td>102</td>
<td>89</td>
</tr>
<tr>
<td>73</td>
<td>110</td>
<td>76</td>
<td>84</td>
<td>73</td>
</tr>
<tr>
<td>75/77</td>
<td>71</td>
<td>104</td>
<td>94</td>
<td>77/79</td>
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<tr>
<td>76/78</td>
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<td>85</td>
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</tr>
</tbody>
</table>

Source: Calculated from Table 18

This discussion has shown that the data most extensively cited to support the urban exploitation thesis provides little support for it. It actually shows that, in response to the total terms of trade actually improved under very difficult economic circumstances, with food producers experiencing a very significant improvement while export crop producers suffered some decline. However, this discrimination against export producers occurred within a context in which 'the potential for earnings appears to be higher in (export) cashcrop production, even though the difference in prices has been reduced' (Kahama et al 1986, page 55). In any event, even export producers were not affected nearly as severely by the crisis and by the government's response to the crisis, as urban wage and salary earners, especially if one recognises that the decline in export crop production which so reduced the income
terms of trade for those crops, occurred largely because peasants substituted food crops for export crops in response to existing price incentives.

Even though real returns to agricultural producers did not decline at all through the 1970s, and declined much less than urban wages and salaries in the early 1980s, those producers could still have been exploited in the neoclassical sense, if the prices they received did not reflect the 'real value' of their products. The final section will examine the claim that marketing margins demonstrate show this to be the case.

**Evaluating marketing margins**

The evidence on marketing margins has generally been treated as complementary to that showing widening income differentials and deteriorating rural terms of trade, which was thought (erroneously) to have established the existence of severe and widespread urban exploitation. In this context, the evidence on marketing margins and food subsidies was thought to identify the main mechanism through which this exploitation occurred.

Analytically the complementarity between these different arguments was never strong. Just as widening urban-rural income differentials do not necessarily imply exploitation, neither does the mere fact of widening marketing margins. The link between the two issues is actually rather tenuous since each depends on different factors: the former on the relative productivity of urban and rural factors of production; the latter on the relative efficiency of the marketing and distribution system.

If the urban exploitation argument is to be based on the fact that marketing margins were widening then one has to show that marketing margins were much larger than they needed to be, and that urban interests were in receipt of large economic rents as a result. Since urban interests were clearly not generally in receipt of substantial rents in Tanzania, the argument has been amended to suggest that those intended rents were eaten up by the monumental inefficiency of the parastatals established to extract them, which raises the possibility that both urban and rural producers were 'exploited' by that fact. The inefficiency and the alleged intent of the policy makers has to be demonstrated.

The plausibility of the orthodox argument now rests entirely on its ability to demonstrate the existence of massive marketing inefficiencies and to show that these could be largely eliminated by the dissolution of the marketing parastatals and the introduction of a decentralised, market driven distribution system within the context of the ERP. The point is critical because these large efficiency gains now remain the only basis for the claim that the orthodox policies should be expected to benefit rural producers, at least in the short term, by substantially raising real agricultural producer prices. The claim that those improved incentives could, in turn, be expected to lead to large increases in agricultural output under Tanzanian conditions has already been shown to have little credibility even within those circles that most strongly advocate the ERP.

If it were true that one could not expect the ERP to raise producer prices to peasants because there were no large, readily available efficiency gains to be made, then the shift to a much greater reliance on market forces could no longer be advocated on the comforting assumption that its immediate impact on the peasantry would be positive. Stripped of this reassurance the real implications of such a policy shift would be revealed as being rather more harsh and ambiguous. One could then see more clearly that these policies merely expose Tanzania's peasants more directly to the forces of international competition so that their ability to prosper, or to avoid disaster, will depend on their ability to deal with
that volatile, fiercely competitive environment. Certainly their ability to succeed in this environment can hardly be taken for granted, given their poverty, their constrained and limited resources and their remoteness from the world's major markets.

Those who advocate these policies would, therefore, need to acknowledge more clearly that the logic of the market might well decree that, even if Tanzania's peasants work for the barest subsistence minimum, very few, if any, of the world's investible resources should be allocated to Tanzania's rural producers because these resources could generate higher returns elsewhere. At present such possibilities are obscured by the promise of quick efficiency gains and ultimately behind the veil of the full employment assumption that removes such painful alternatives from view in the neoclassical debate. In the meantime, rising real interest rates and reports that peasants are no longer able to buy input for farming would seem to indicate that these are not merely hypothetical concerns.

The claim that massive efficiency gains can be made by reorganising Tanzania's agricultural marketing and distribution system is, first and foremost, based on empirical evidence showing that marketing margins rose very rapidly during the 1970s and early 1980s, especially after marketing became the sole responsibility of relatively centralised parastatal crop authorities that were established in two stages in 1972 and 1975 (Wagao 1982). The evidence is certainly striking (Table 22) in that it suggests that between 1970 and 1980 the real unit value of marketing and distribution costs more than doubled coming by 1980 to appropriate significantly more than half of the final sales value of marketed crops.

<table>
<thead>
<tr>
<th>Year</th>
<th>Unit Marketing Costs</th>
<th>Marketing Margins</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>100</td>
<td>33.6 1971</td>
</tr>
<tr>
<td>1971</td>
<td>103</td>
<td>37.5 1972</td>
</tr>
<tr>
<td>1972</td>
<td>113</td>
<td>41.1 1974</td>
</tr>
<tr>
<td>1973</td>
<td>119</td>
<td>43.2 1975</td>
</tr>
<tr>
<td>1974</td>
<td>180</td>
<td>53.2 1975</td>
</tr>
<tr>
<td>1975</td>
<td>138</td>
<td>41.4</td>
</tr>
<tr>
<td>1976</td>
<td>260</td>
<td>54.4 1978</td>
</tr>
<tr>
<td>1977</td>
<td>223</td>
<td>58.4</td>
</tr>
<tr>
<td>1980</td>
<td>227</td>
<td>58.4</td>
</tr>
</tbody>
</table>

Source: Ellis 1983b, Tables 5 and 6

This partly reflected the dramatic extension in the responsibilities given to the crop authorities when these were first established and partly the objective changes in the conditions under which the marketing agencies had to operate in the context of the protracted economic crisis.

The functions given to the marketing authorities had been substantially expanded when the new crop authorities were established, ironically under the guidance of McKinsey and Company an internationally acclaimed American management consultancy firm.

'Each parastatal authority has a total monopoly in all spheres of activity related to the crop under its control, and a considerable degree of autonomy in the execution of its functions.
These functions include procurement, transport, storage, processing (where applicable), and export sale within the sphere of marketing; and research, extension, project execution within the sphere of production development'  

(Ellis 1983a: page 34)

The costs of these parastatals now reflected almost all of the costs entering into agricultural production, extension, research and marketing. In so far as these costs had earlier been borne by 'general taxation' this involved 'a shift in the burden of their financing .. to agricultural producers' (Ellis'1983b, page 231). More significantly, it reflected the fact that in the context of economic crisis there were suddenly no other surpluses from which to finance such expenditure. In this sense, these changes are not the cause, but the consequence, of the basic problem, which was the creation of a certain, import intensive type of economic structure based on highly unrealistic assumptions. When the viability of that structure was suddenly undermined in the mid 1970s, the consequence was a dramatic deterioration in the overall availability of resources that had to be shared throughout the economy. It has already been shown that rural producers did not suffer an undue share of the resulting hardship. The fact that they shared in that general hardship cannot be deplored outside of that context. The fact is that large surpluses were suddenly needed to avert collapse in the system as a whole, a collapse that would ultimately also be contrary to the peasant interest.

This does not mean, of course, that all the surplus that was extracted was justified, or that the mechanisms were as efficient as they could have been. It means, however, that the significance of these observations cannot be established apart from these historical and macroeconomic parameters. It also means that, contrary to Ellis's claim, it is perfectly legitimate to regard a large part (Though not all) of the additional costs incurred through this extension of crop authority functions as an explanation, or justification, for the recorded increases in those marketing margins.

What is potentially more worrisome, is that these new authorities came to play a role in perpetuating and extending the underlying capital and import intensive patterns of growth that were actually the central problem. Ellis suggests that because most of the 'input subsidy policies' and the 'crop development projects' undertaken by the crop authorities were largely funded by outside sources, they are not relevant to an explanation of those widening differentials. This is unlikely to be the case since these are very likely to be very mechanisms that were most likely to be fostering that excessive growth in overheads and in capital intensity that Ellis identifies as the central problem. In this context it is not irrelevant to note that these organisations were established with the support of the World Bank and the advice of external consultants. Indeed, one observer who has studied the accounts of these organisations as thoroughly as anyone and who showed that by 1977/78, 'for every one Tanzanian shilling subscribed locally to the agricultural parastatal aided projects, external funding' accounted for between Shs.40 and Shs.2, with the sole exception of the cotton authority where it was just Shs. 0.50'. He concludes that:

'On the whole, a comparison with the position during the early 1970's is indicative of the fact that the previous marketing boards have in the latter part of the 1970's suddenly, and increasingly, turned into the 'entrepots' for finance capital originating from the international money market'


From this perspective it is somewhat ironic that the solutions proposed by the ERP should not only strongly encourage the pursuit of foreign investment, aid and finance but should also have as one of its central guiding principles the notion of 'user pays'. In short Ellis's complaint that the extension of the
functions of the new crop parastatals had shifted the burden of rural development costs on to the peasants, is not likely to get a very sympathetic hearing in this new world.

Apart from the additional costs incurred as a result of the extension of the range of their responsibilities the crop authorities had to deal with the effects of the global upheavals that engulfed the developing world after 1973 and whose impact was magnified in Tanzania for a variety of reasons including Tanzania's naturally high unit transport costs, which were amplified by the effects of panterritorial pricing after 1973 and reflected in the relative import intensity of its agricultural production costs. These factors, together with more contingent factors like two severe droughts, the Uganda war which commandeered almost the entire transport fleet for a time, and the fact that several enormous infrastructure projects had only just been completed, combined to ensure that the oil crisis of 1973/74 would have a massive impact on marketing and distribution costs. This is clearly reflected in the figures which show that 50 to 60 percent of the total increase in marketing margins over the decade occurred in the two years 1973 and 1974 (Table 22).

But even after this there were cumulative factors at work that would continue to push up those costs relentlessly. Chief among these would be the stagnation of output growth, the rise in real interest rates and the progressive deterioration of the roads and of the vehicle fleet not to speak of the massive diversion of produce to parallel markets whenever those prices exceeded official prices.

Nor is it surprising that these effects should have been most dramatic in the case of export crops since the government had given strong relative price incentives to food production in the 1970s in an effort to increase the nation's food security. Given that 'farmers can and do change cropping patterns in response to changes in price signals, and the evidence suggests that farmers did exercise this option during the 1970s' it is not surprising that the production of export crops lagged behind. When the effect of this is added to the above considerations, it was inevitable that the unit marketing and distribution costs of export crops would grow explosively. On balance, there can be no doubt that a very large increase in marketing margins was inevitable under these conditions and that a correspondingly small proportion of those recorded increases can therefore be legitimately treated as readily reversible or as a potential source of efficiency gains that could be captured by some form of institutional change.

The marketing parastatals did undoubtedly contribute to those increased margins to some extent and partly because they were large, cumbersome, occasionally corrupt and sometimes disorganised institutions. It was also partly because the authorities simply 'found themselves too overburdened to carry out the new tasks .. particularly .. where purchases .. involved crops widely grown throughout the country' (Wagao 1982, page 34). But this does not allow one to conclude that such institutions are inherently inefficient, or to suggest that their monopolistic power could allow one to announce the discovery of a 'Law of Rising Parastatal Marketing Costs in Tanzania' which was said to operate because these institutions engaged in cost plus pricing (Ellis 1983a). The truth is that such institutions can function very efficiently (24) and the alternatives will suffer from different, potentially even more serious problems. Broad assertions covering all types of crops and circumstances will not provide a good basis for policy in this area. Tanzania's past is littered with big institutional transformations that proved extremely costly and far more complex to implement than was initially supposed.

In practice, the government was persuaded by 1984 that the parastatals were a major source of their problems in agriculture and, on this basis, it revived the cooperative movement's role in crop marketing. Under the ERP it has embarked on a further liberalisation and decentralisation of agricultural marketing. This process is currently encountering enough difficulties to serve as a reminder that the market generally works very badly in situations of fundamental disequilibrium where shortterm
supply responses are hampered by deepseated structural problems, which is exactly the situation in Tanzania's rural economy as the World Bank clearly recognises. These difficulties should further serve as a reminder that the crop authorities had replaced the cooperatives only after extensive studies had repeatedly shown those societies as suffering from a wide range of serious and allegedly unresolvable problems (Wagao 1982; Raikes 1988). In his paper on widening marketing margins, Ellis summarises this earlier accumulated wisdom in the following terms:

>'the unit marketing costs of primary (cooperative) societies were strongly inversely correlated with the volume of produce which they handled. ... Furthermore both cooperative societies and unions were found to be engaged in activities quite unrelated to their principal activity of crop purchase, and it was found that the crop purchase functionfwas sometimes used to subsidise heavy losses elsewhere in society operations. The 1966 Committee of Enquiry referred to widespread evidence of corruption in both primary cooperative societies and cooperative unions, and this was at least partly attributed to the difficulties of supervising and auditing the activities of the large number of cooperative organisations distributed around the country' (Ellis 1983a: pages 33,34)

It is not clear why this should be very different today, especially when one considers the far more difficult conditions in which such societies will have to operate. Although it is too early to assess current efforts to restore a more decentralised marketing structure, one cannot say that these efforts are based on strong evidence. In fact, like the ERP itself, they appear to be primarily based on the belief that markets are more efficient than other forms of economic organisation. But this is a fragile basis for implementing yet another risky programme of extensive institutional change in a context that is already extremely uncertain because farreaching changes in interest rates, relative prices, exchange rates, and trade and fiscal policy are occurring simultaneously. Negative feedback effects between different policies in this package cannot be ruled out.

Thus it will be very hard to establish a new marketing system under the sorts of conditions that have been described in this paper. With devaluation driving up input prices and interest rates, fiscal restraint cutting out most subsidies and reducing the effectiveness of support services, and trade and price deregulation creating a climate of rapid and uncertain change both the peasants and the new trading institutions will find it very difficult to establish a stable and efficient relationship conducive to long term investment and growth. The reported reluctance of peasants to buy inputs is merely one indication of the difficulty of the present situation. Another is a reported strong peasant preference for food production, despite price incentives to the contrary, on the grounds that food can always be sold in local markets and hence turned into cash directly.

These problems have been noted elsewhere. Under the ERP Tanzania is clearly facing severe problems of coordination and communication in its attempt to make a more liberalised marketing system function effectively. Control of the cooperatives is once again a clear concern and complaints about their operations are frequently heard from peasants. By late 1988 those most intimately concerned with the establishment of this new marketing system were especially concerned because the volume of cooperative purchases was far below expectations and because the cooperatives were not proving nearly as aggressive or efficient in moving produce to deficit regions or in dealing with bulk consumers or private traders, as had been hoped. A recent official document speaks of a 'vague and confused atmosphere' which 'is not conducive to effective marketing and sales' and states that 'in spite of the very laudable intentions, the new food marketing system has run into serious teething problems'. Moreover, it adds that 'in this atmosphere of uncertainty and confusion, pace of procurement has been the first casualty' (FAO/Kilimo: October 1988).
Meanwhile, studies done for the World Bank have already begun the strategic retreat. Now that Tanzania has yielded to their pressure and has embarked on yet another massive and costly reorganisation of its rural marketing system based on the orthodox analysis and its prescriptions there are indications that there are some second thoughts coming to the fore. Thus, recognising the problems that are clearly emerging as the new policies are implemented, a recent World Bank study has noted that both the original diagnosis, which placed the central blame on the parastatals, and the policy prescriptions, which simply emphasised the benefits of competition, may have been too hasty.

The study notes that 'donors have tended to attribute parastatal losses to managerial and administrative inefficiency, while the boards have often had very little latitude in the tasks with which they have been charged' (Lele 1989). Moreover, such mistakes are particularly serious when one recognises that some of those 'lossmaking (activities) may be regarded as legitimate functions (That) are not undertaken by the private sector' (Cleaver and Westlake 1987). By the same token, it seems that the wisdom of the new policies has been too readily taken for granted.

'The adjustment process .. has tended to cut the role of the public sector. To be successful, however, such measures require alleviation of the constraints on the operation of the private sector and the establishment of a regulatory and facilitating role for government; efforts to do this have just begun but are too slow in relation to the speed of the attempted reduction of the public sector's role'

(Lele 1989, page 140)

Moreover, the fact that these changes are being introduced in the context of economic crisis has 'resulted in inadequate preparation as liberalization programmes are adopted' (Lele 1989, page 140). It is a familiar and depressing story summed up in a World Bank comment on an earlier failure that may well come to serve as the epitaph for this latest chapter in the story of dependency and its costs.

'Implementation of these programs provided evidence of poor planning and administrative weakness. In many cases, the pace of change was too rapid. Insufficient time was allowed for producers to adapt to major changes before modifications were introduced .. or an entirely different approach was tried as with the abolition of the cooperative unions in marketing'

(World Bank 1984a, #2.6, page 20)

This is not to say that there is not a need for institutional changes that would reduce the state's administrative controls over the peasantry, bringing it into line with the limited capabilities of an increasingly beleaguered and constrained bureaucracy (Kleemeier 1988). The case for that has been repeatedly made by various detailed and persuasive studies of Tanzania's rural economy (Raikes 1988; Boesen et al 1986) but this is not a simple question of state versus market. Raikes' discussion of this point is worth citing at length:

'A number of different "structural adjustment" plans and proposals have been produced, with the dual aim of improving the state of the economy and persuading the World Bank to release a structural adjustment loan. A number of measures have been taken to reduce the size of the bureaucracy, to cut military and civilian state expenditure and to cut urban food subsidies. None of these has been an easy or a popular decision.

One problem with the above is that it is very difficult for all concerned to gauge how large and secure
the changes are. To a considerable extent, initiative has now been thrown largely to the various private sectors. The state is increasingly accepting tacitly that there are areas of the economy that it cannot control. But the private sector is far from developed and its members have been pushed into shortterm profit maximising by insecurity. It is, moreover, very far from being competitive, and further privatization, under existing conditions would most likely benefit the politically wellplaced without increasing the degree of competitiveness. Given that Tanzania's legal system is not set up to cope with such problems, it could give rise to a rush on land and other resources. There is also the major problem that a "shortage economy" now exists and can be extraordinarily difficult to get rid of, without large amounts of funds to "flush through" the various markets. Even if Tanzania does get bridging finance, it is unlikely to be of the order required for this. Even if it were, the Tanzanian state would be as likely to use it for further investment as for increasing the availability of incentive goods and improving their prices.

(Raikes 1986: page 132)

While the present problems may simply turn out to be teething problems that will soon give way to a much more efficient marketing system, there is a grave risk that this will not be the case. In any event the current costs are real enough, and as so often in the past, the future promise seems all too distant and hypothetical. Meanwhile, big money is being made by a few and the political base for future policy making is changing by the day. Unfortunately, that will not lead to more efficient or rational decisions; it will most likely lead to decisions that are simply more prepared to accept the unfortunate costs on some parts of the population of living by the logic of the global market.

Conclusions

Tanzania's rural population faces a bleak future under the ERP. The producer price increases that it was supposed to receive can be only relatively small and temporary, and for most rural households their positive impact has in any case been more than offset by the negative impact of simultaneously increasing costs of production. Moreover, even if larger, more sustained producer price increases were unexpectedly to materialise there is virtually no chance that these could elicit a total agricultural supply response large enough to ensure the policy's economic success. However, a failure to achieve economic success will generate dangerously divisive political and social conflicts that will threaten society's capacity to deal effectively and equitably with future challenges. It is unfortunate in the extreme that the external agencies that claim to be assisting Tanzania in its development effort and that control its access to international credit and aid should have pushed it so singlemindedly in a direction that carries such high risks and has such a low chance of success, the more so since they clearly recognise that the agricultural supply response on which that success so critically depends will not materialise in response to the incentives offered by that policy.

In essence Tanzania's ERP is merely one more example of the global assertion of the axiomatic, and deeply ideological assumption that more market oriented policies are more efficient and that economic problems are primarily the result of political interference in the market place. The main arguments justifying the ERP are particularly untenable in the Tanzanian context and do not find support in the available empirical evidence. This evidence does not show administered prices being used by an urban based bureaucracy to exploit rural producers; it does not show the existence of massive misappropriated rents or wilful efficiency losses whose recovery might allow producer prices to be systematically raised by market forces; it does not suggest that even if such price increases were to materialise, a massive supply response would be forthcoming. This evidence should have led to quite different policy conclusions.
The central point is that in Tanzania real incomes in both rural and urban sectors have been falling steadily ever since it became apparent that the costly and import intensive economic structures that were built in the first fifteen years of independence, with the encouragement, support and assistance of the international financial agencies, could no longer function effectively under the changed and volatile international economic conditions that emerged during the 1970s. Whether the pure efficiency gains that could have restored the viability of that structure were attainable under any feasible set of domestic policies must remain an open question despite the fact that a few other economies in the world were able to meet that challenge. Tanzania was both relatively more vulnerable to those global changes and relatively less well endowed with the technological capabilities on which a successful response would have depended.

Ironically, in view of the claims of the orthodox analysis, the evidence shows that what Tanzania did do in response to this crisis was to protect rural producers, and especially food producers, relatively effectively from the effects of that crisis on the grounds that an agricultural recovery was a necessary, though not sufficient, condition for an economic recovery and that the highest priority had to be given to food security under these difficult conditions. As a result the differential between the incomes derived from crop sales and from urban wage and salary employment declined sharply, with food producers being offered significantly improved incentives and export crop producers facing mildly declining terms of trade while urban wage and salary incomes were decimated.

Unfortunately this strategy failed because it encountered objective limits that constrained the real price incentives that could be offered to rural producers and cut the flow of complementary inputs and services on which the effectiveness of those price incentives depended. The end came when the ability to further squeeze the urban economy approached a limit beyond which further reductions are clearly counterproductive because they threaten to reduce efficiency of the economy as a whole and because they ultimately pose growing political and ethical problems that cannot simply be ignored.

Tanzania attempted to manage this deteriorating situation by maintaining rural producer prices as best it could, giving special emphasis to food crops and within that category, to drought resistant crops. At the same time it squeezed urban incomes fiercely while subsidising urban food supplies so as to keep urban incomes from complete collapse and rationing the limited supply of basic commodities in order to a minimum supply to a wider section of the community. The World Bank described this strategy accurately when it said that:

>'Inflation and a restrictive wage policy .. steadily reduced the real value of average earnings in industry. Notwithstanding a big increase in social and financial laborrelated expenses, particularly in the parastatals ..labor costs are on a downward trend: between 1966 and 1981 they fell from 46 to 34 percent of value added. Increased payments in kind have not compensated for the fall in basic wages, and, by extension, in urban incomes. The gap between industrial and agricultural incomes has narrowed considerably. At the bottom of the scale a subsistence farmer is now probably better off than an unskilled industrial worker. This has serious policy implications, since it leaves the Government with little room to manoeuver on food prices and continued wage restraint'

(World Bank 1984a, #2.42, pages 33,34)

These serious implications apply especially to the ERP whose success is premised on the essentially untenable assumption that there is such room for manoeuver. The earlier policy had foundered on this rock. The failure of agricultural supplies to expand rapidly enough and the further deterioration in international economic conditions in the early 1980s destroyed any chance that this earlier strategy
might have had. As the shortages continued and intensified, the legitimacy and the effectiveness of the rationing system was steadily undermined. The explosive growth in crop authority operating deficits indicated that the line could not be held any longer; either producer prices had to fall, or urban food prices had to rise, and neither option was deemed politically feasible or economically desirable.

In this context it makes little sense to insist that Tanzania's problem lies primarily in the urban sector's use of its political power to exploit rural producers through the extraction of unwarranted rents. Not only is this argument grotesquely inaccurate, it is quite wrong in suggesting that the rural sector's revival could be based on higher producer prices financed by a diversion of those alleged rents to rural producers. Most urban dwellers are not in receipt of such rents and are not in a position to sustain a further significant squeeze on their living standards without further undermining the effectiveness of the very institutions and services on which the prosperity of the rural economy ultimately depends.

Nor can such price increases be financed on the basis of massive efficiency gains through reorganising the marketing and distribution of agricultural production. Although some gains are always possible in this regard they are unlikely to be realised simply by liberalising those markets in the midst of the present severe and endemic shortages, especially since most of the cost increases that were recorded in the 1970s were actually based on objective changes that will remain as constraints for any reorganised marketing system. In the meantime the risks and costs of yet another major institutional reorganisation have to be viewed with some concern.

The fact is that since the early 1970s Tanzania's basic problem was not primarily the exploitation of its rural economy by an 'urban sector' using its power over administered prices to extract substantial rents. It is far more accurately described as 'exploitation' of the national economy by an aggressive international bourgeoisie capable of manipulating prices and interest rates in its own interests and capable of forcing countries like Tanzania to accept those prices as facts of economic life to which they have to adjust, whatever the human cost may be.

By misrepresenting Tanzania's problem as one of rural exploitation by its urban sector, the orthodox analysis effectively sets the rural poor against the urban poor while suggesting that a solution could be found by diverting resources from the latter to the former. As so often, this argument holds the poor responsible for the plight of the very poor but conveniently hardly mentions the rich at all. Indeed, in so far as the rich derive their wealth from the market, legal or not, this argument simply treats such wealth as an important positive basis for growth and development. While this may be true under certain circumstances, it is certainly not necessarily true, and it is especially unlikely to be true when the accumulation of wealth will most often be based on the exploitation, and even the reproduction, of endemic shortages. Scarcity rents are as real as the rents that the orthodox analysis is perpetually seeking to eliminate.

Certainly for the moment one can say that one of the most immediate and most evident outcomes of Tanzania's ERP has been the dramatic emergence of very large accumulations of wealth and a process of social polarisation that augurs ill for the future, especially since these gains are very unequally distributed among the various communities.

This should serve as a reminder of the dangers that lie buried in this new policy for Tanzania. Indeed, the problem of social and economic polarisation is seen to lie at the very heart of the ERP once one understands that the 'decriminalisation of the black market' which forms such an important part of that policy can serve as a perfect metaphor for the policy as a whole. Faced with a range of serious and deepseated objective problems that defeated the government's earlier attempts to find a viable and
equitable solution, this new policy offers a solution that rejects rationing, subsidies and foreign exchange management and offers 'market forces' as the solution even though it is all but universally agreed that the supply responses on which the success of that solution depends are blocked by long term structural problems.

In the meantime, market forces will allocate the control of productive assets and available resources in accordance with an increasingly skewed income distribution and in accordance with the signals given by international prices and interest rates. This will probably benefit some of Tanzania's rural producers but for most peasants it is likely to prove a harsh and potentially destructive environment. An Iringa peasant summed up the situation as it will long appear to such producers when he explained that things had got worse under the ERP because,

\[ 'before, when goods were only intermittently available we could at least get some when they were available. Now they are always available, but we can never afford them'. \]

The truth is that Tanzania's problems will not be solved by the ERP. A solution will require a policy that is able to deal reasonably equitably and fairly with the extreme shortages that will prevail for some time to come while at the same time making cautious long term investments in research, training and infrastructure that are largely financed and managed by a confident and effective public service. Unfortunately, under the ERP, the Tanzanian state will not be in a position to fulfil those functions because its economy will be even more directly and fully exposed to the volatile and often shortterm oriented forces of the international market, and because its legitimacy and its popular authority will be progressively undermined by policies that accept 'illegal' activities as legitimate so long as they reflect market forces in whatever form.

In some quarters Tanzania is already being cited as the newest success story of Africa but this is certainly premature and probably unwise. It is well to remember that the SubSaharan 'miracles' that have been touted by the orthodox analysis have come and gone like shooting stars. Too often it turns out that their fleeting success was merely the result of some new resource transfers and a huge increase in debt. Ghana's experience is already looking decidedly tarnished as its debt burden soars, while the Cote d'Ivoire, so long a model pupil, has turned its back on the model now that it is one of the world's most heavily indebted economies, on the grounds that:

\[ "We now consider that the indefinite continuation of austerity on such a scale would endanger the political and economic stability of our country," Abdoulaye Kone, Economy and Finance Minister, told the country's creditors in Paris recently \]

(The Toronto Globe and Mail, 2 July 1987)

While Tanzania has experienced some economic revival under the ERP, this has been largely the result of increased net transfers of foreign exchange and a couple of good rains. There is, as yet, little evidence of the positive structural changes that might lay the foundations for a brighter future. Indeed, on this front, there are many reasons for concern, since the new policies have clearly unleashed powerful centrifugal forces in Tanzania's economy and society which could undermine the political foundations on which any effective development policy must depend.

Tanzania's experience strongly confirms the warning issued in another study of adjustment in SubSaharan Africa, which noted that:

\[ 'It has been suggested in some quarters that the hardship and suffering were primarily the \]
consequence of incorrect policy decisions taken in response to what has euphemistically been called "a rapidly changing world economy". The obverse of this is that pursuing "correct policies" promises a bright future regardless of developments in the international economy. This is an appealing hypothesis, particularly attractive in difficult times when one recalls the possibility that circumstances may make one's best efforts irrelevant. It remains, however, a hypothesis, and a hypothesis somewhat at variance with the miserable economic performance of most SubSaharan African countries'

(Jamal and Weeks 1988, page 34)

The world market is not a hospitable place for Africa's peasants and the claim that they would prosper if only they were fully and directly exposed to its competitive pressures is simply not tenable. Nor is it generally true that the main conflict of interest lies between the peasants and the urban dwellers in their own country. Policies based on such false premises will not ultimately serve the interests of that peasantry.

What will serve its interests is a coherent national policy that creates the conditions under which agricultural producers can increase their productivity using technologies that are not heavily dependent on imports while an increasing proportion of the population is absorbed in productive employment outside of agriculture. This requires a vision and a process of long term investment in infrastructure and industry and that, in turn, requires a state and a leadership able to carry out this task effectively. That, ironically, is the lesson taught by the highly nationalist states of East Asia that have so long been held up as models of the orthodox prescription.

Unfortunately, the policies presently being implemented in Tanzania do not build a basis for such a solution, and may actually destroy the political, the economic and the institutional basis for such an effective national development policy. In the long run this is likely to cost the peasants dearly. Certainly the brief period of improved producer prices that followed the introduction of the ERP will be easily forgotten. Indeed, most of the Iringa peasants with whom we spoke had forgotten them already.
Footnotes

1. The dangers of proceeding with externally funded projects are a constant refrain leading to warnings such as that by Finance Minister Jamal in 1975 to the effect that 'planners must take into account increases in recurrent expenditure occurring in the two years following implementation of a development project' (Bienefeld 1975, Fn 45, page 260). It is in this sense that one could say that the most difficult thing in formulating development policy is to avoid overoptimism because market forces, self interest and a genuine responsiveness to social needs will all tempt one to err in that direction with disastrous consequences in every case.

2. These 'white elephants' are generally regarded as the clearest evidence of the irrationality and the shortsightedness of those 'urban interests'. Even though on occasion the World Bank does accept some responsibility for these 'mistakes' this does not deter it from placing the blame squarely on the shoulders of the domestic urban coalitions. However, occasionally it does recognise that its responsibility was not peripheral but deep and systemic. Thus, in discussing the mass of 'unwise' international lending that occurred in the 1970s, it suddenly explains that: 'the economic difficulties of the early 1980s were the product of individual economic decisions that seemed rational when they were made' (World Bank 1985, page 5).

3. The problem of 'optimism' seen as endemic to market driven systems and its role in fuelling the international debt crisis is discussed at greater length in Bienefeld 1988a.

4. Within the Tanzanian left there has long been an intense debate as to whether its government was, or was not, under the control of a 'comprador' class, with I.G. Shivji arguing most consistently that it clearly was. Given that Tanzania did, ultimately, build an economy whose need for foreign exchange far exceeded its capacity to earn it, this position has been considerably strengthened. This paper argues that it is nevertheless wrong simply to categorise the government in this way. Indeed, the tragedy of Tanzania lies precisely in the fact that a leadership that was aware of the danger inherent in the pursuit of a neocolonial development strategy and that actively sought to avoid it still ultimately found itself unable to avoid that fate.

5. It reflects the highly charged atmosphere of the Tanzanian debate that the abandonment of this anticorruption drive is generally ascribed to weakness or venality on the part of the government, even by people who have no sympathy for the basic attempt to use rationing in this situation. It seems perfectly possible, however, for a government to attempt to fuse rationing under circumstances of endemic scarcity but to abandon this attempt when it becomes clear that it has become effectively unenforceable.

6. A recent IMF Paper on 'Theoretical Aspects of the Design of FundSupported Adjustment Programs' (IMF 1987) concludes that under the sorts of conditions found in Tanzania in the early 1980s (ie an existing burden of debt and high inflation), the effectiveness of the orthodox policy package cannot be assumed and its impact can even be potentially disastrous. Thus it notes that:

   'Recent experience of countries with debtservicing problems in implementing adjustment policies suggests that the presence of a large external debt creates special problems .. Suppose that in such a country .. the principal expenditurechanging policy is a reduction in the fiscal deficit, while the principal expenditureswitching policy is a devaluation of the domestic currency. The devaluation increases the proportion of income going toward increasing interest payments on external debt .. thereby reducing aggregate demand and contracting domestic
output. Another result of the devaluation may be to increase the fiscal deficit. .. In the meantime, there is often resort to emergency tax increases or expanded inflationary financing. The result of these developments may be increased capital flight, which puts pressure both on the domestic currency (To depreciate further) and on domestic interest rates (To be pushed higher to combat capital flight). These secondary effects on the exchange rate and interest rates tend to lead to further deterioration in the fiscal situation'

(IMF 1987, page 45)

This same point is made eloquently by Jeffrey Sachs who is tireless in his injunction that export orientation may be highly advisable, but liberalisation in conditions of economic crisis is not. This is so for good theoretical reasons but is also supported by the experience of the NICs.

'At the very least, the strategy can find little historical support. The success stories of East Asia, so frequently pointed to as illustrations of the benefits of exportled growth, do not demonstrate the utility of trade liberalization in the midst of a macroeconomic crisis.'

Moreover, .. the East Asian experience suggests that export promotion policies can be pursued (and maybe are best pursued) by a dirigiste government, and even in the presence of tight import controls and tight regulations in the capital market. ... it makes little sense to press poor countries in dire economic difficulties to make rapid structural changes on behalf of the rest of the world'

(Sachs 1987)

See also Bienefeld 1988b for a discussion of the 'lessons of the NICs'.

7. Between December 1985 and December 1987 the NCPI rose by some 70 per cent. During the same period the official price of foreign exchange rose by 400 per cent as a result of devaluation and, somewhat surprisingly, the parallel market rate rose by almost as much. Meanwhile the transport component of the NCPI increased by 115 per cent over the same period. (Tanzanian Economic Trends: Vol 1, No 2, July 1988, tables 3 and 5)

8. Tanzanian Economic Trends (Vol1:No2, July 1988) calculated real producer prices by deflating nominal farm gate prices by the NCPI. However, the 1987/88 figures are erroneously deflated by only 20 percent (Table 9) when the recorded increase in the NCPI was actually 30 percent (Table 3).

9. Of course, the same price level may have different effects under different circumstances. However, given that the general conditions within which Tanzania's peasants have to function are now more difficult than they were in the 1970s, it seems unlikely that real prices that did not trigger a significant supply response in the 1970s would be able to do so now. The fact that today's prices are still lower than those paid in the 1970s further strengthens this conclusion.

10. If gross output is Shillings 100 and costs of production are S50 then net income is S50. If costs of production rise by ten percent, that represents a cost increase of S5. If that is to be 'made good' by price increases enjoyed in crop sales and if crop sales account for only 4 percent of net income (ie S2) then the income per unit of crop sold would have to increase by 250 percent to offset a cost increase of S5. This hypothetical example is, of course, merely illustrative and only designed to emphasise the potential asymmetrical effect of price increases affecting different inputs and outputs given different structures of peasant production.
11. Many peasants believe that they are now worse off than they were before the ERP. This was clearly reflected in the responses of selected groups of Iringa farmers interviewed in December 1988 by the author, together with Dr. Lwoga of the University of Dar es Salaam. Although these responses must be regarded as purely indicative, they did raise many points of interest for this discussion.

The peasants selected were from two villages in the Iringa area; one grew both cash crops (Tobacco) and commercial food crops (largely maize); while the other grew primarily maize. In each village, we arranged to speak to three separate groups of villagers: one composed of relatively poor farmers; one of average farmers; and one of relatively prosperous farmers. We always began by asking whether the respondents' lives had become easier or more difficult over the preceding couple of years. Every group, except for the richest group from the more prosperous village, gave a spirited account of increasing hardship and difficulty. When asked whether there had been a change in 'the availability of consumer goods', these same groups all claimed that this 'availability' had deteriorated. Moreover, each group rejected the suggestion that: 'Surely, this availability must be greater now than it was a few years back, when absolute shortages were so widespread!' In every case the reason was similar to that given by one peasant who said:

'Oh no, but you don't understand. Back in the days when goods were only sometimes in stock, at least we could afford them when they were available. Now they are always in stock, but we can never afford them.'

12. Interviews with personnel officers at two sisal estates also held in December 1988 confirmed reports received from other sources, namely that most estates have encountered increasing recruitment problems over the past few years.

13. 'The National Agricultural Food Corporation (NAFCO) came into operation during the fiscal year 1969/70 as a holding company of operating companies' (Wagao 1982, page 28).

14. An interview with Roderick Mahenge a Tanzanian who farms 1500 acres southwest of Iringa confirmed this hypothesis. He was struggling under the new policies because his operations were so capital intensive. He was being squeezed so fiercely because he evidently had not been converting his Tanzanian Shillings into foreign exchange in the past, hence he was having to buy all his equipment and spares in devalued Shillings.

15. This improvement in the availability of drugs in rural dispensaries is very encouraging but it is likely to be a short term reflection of the somewhat greater availability of foreign exchange. Indeed elsewhere UNICEF was already reporting that social spending was clearly on the decline (UNICEF 1988b).

16. Deepak Lal (1983, pages 14 to 16) provides a very concise and effective summary of the implications of the theory of the second best for economic policy debates. Of course, although he notes that this theory formally destroys the validity of arguments that urge one to liberalise markets in an imperfect world, Lal concludes that this is an invalid conclusion since other forms of intervention are likely to be even more problematic. This conclusion is, however, more a matter of belief than one that is drawn either from theory or from empirical evidence.

17. Frank Hahn (1982), a leading neoclassical theorist reminds us that the market is particularly weak when it attempts to guide decisions that have long term consequences. Thus:
'If the invisible hand is to operate there must be sufficient opportunities for intertemporal and contingent intertemporal trade. In fact .. the lack of intertemporal markets means that .. there is .. no obvious mechanism by which intertemporal decisions can be coordinated'

(Hahn 1982, page 12).

18. "The latest Bank Report (1984b) recognises the central importance of this point when it repeatedly states that the expertise of the agencies must be applied within a clearly defined framework that reflects "national development objectives". The question is: "how does one acquire the capacity to accomplish that prior task?"

(Bienefeld 1986b, page 75).

19. Mancur Olson (1982) has given currency to the concept of 'encompassing coalitions', which he contrasts to his 'distributive coalitions'. Whereas the latter are narrowly selfinterested and divisive because they are constantly engaged in a struggle to appropriate a larger share of current income, 'encompassing coalitions' are able to take a broader, more long term view that allows them to seek increased income by taking steps to improve efficiency and productivity in the longer term (Olson 1982).

Robert Bates in his work on African states also identifies the need to create conditions in which 'the dominant interests may be persuaded to forsake the pursuit of shortrun advantage, and .. instead employ strategies that evoke cooperation by sharing joint gains' (Bates 1981, page 132). This comes as rather a surprise at the end of a book which is entirely based on the thesis that people and groups will necessarily behave in a narrow selfinterested manner.

20. There is a curious parallel with certain Marxist arguments here. These too are based on the idea that exploitation occurs when workers do not receive the full value of their work. Such openended definitions of exploitation are completely unhelpful, however. In both cases they become meaningful only when one addresses the question of how those surpluses are then controlled and allocated. Of course, Marx's argument was that under capitalism those surpluses are then used in a manner that is both 'historically progressive' and socially divisive and prone to the periodic generation of crises.

21. A recent neoclassical analysis of Canada's economic policy choices states quite bluntly that from a neoclassical perspective 'one can assume that gains outweigh losses' when markets are liberalised (Trebilcock 1986, page 11).

22. An exact comparison is not possible. However, Bevan et al 1988 have calculated that between 1979/80 and 1983/84 the NCPI rose by 174.1 percent, while their 'adjusted' rural index rose by 247.3 percent (Bevan et al 1988: page 66). If one uses this figure as a rough approximation for the change between 1978/79 and 1982/83 and applies this to the figures in this table the urban decline to 1983 is still greater than that of any rural crop.

23. Of course the gains are not shared equally among the peasants but that is not the point at issue here.

24. There is circumstantial evidence in the fact that, as the more distant regions of Rukwa and Ruvuma became the granaries for Dar es Salaam, the officially marketed volumes coming from traditional granaries like Arusha declined drastically. Few people, however, have suggested that these latter regions ceased to produce such crops. They merely marketed them elsewhere including presumably across the border where prices were often (Though not always) more attractive. Raikes notes that:

'As recently as 1979, Arusha delivered more maize to the National Milling Corporation (NMC)
than the four Southern Highlands regions combined. Since then, maize from Arusha has gone almost exclusively to the unofficial market, including smuggling to Kenya'.

(Raikes 1986, page 118)

25. See Ellis 1983a and 1983b

26. As is well known, the potential benefits of more centralised marketing arrangements are occasionally realised, just as the promise of private marketing channels is not always fulfilled. The solution therefore probably lies in a relatively pragmatic approach that recognises the need for different types of organisations for different types of crops and circumstances. A reminder that one has to keep an open mind comes from a study which suggests, at one point, that 'the principal raison d\'etre (of commodity boards) seems to be to syphon off the agricultural surplus', but which also contains the following account:

'In the Sahel countries the history of cotton is one of success as evidenced by a tenfold increase in production in the two decades covered by the study. Cotton in these countries has become the principal source of foreign currency and has improved considerably the standard of living of the farmers in the two main producing regions .. which contrasts with the stagnation observed in the other regions of these countries.'

'The institutional framework regulating production and distribution is a peculiar one. A parastatal organisation exercises complete control, acting as a monopsonist buying the harvest from the farmers at an official price before selling it on the world market. ... the institutional environment was .. favourable consisting of .. a guaranteed price to the producer set at a profitable level for the latter, the diffusion of inputs and required machinery to the farmers, the availability of credit and a well organized marketing system'

(Lecaillon 1986, page 30)
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