KHARTINGANEMERGING

To chart a rational course in the *coming years,* the *leaders of* Tanzania *need to* better *understand* the *nuts* and *bolts of* their developing economy A *team of Tanzanian economists,* working with *Canadian colleagues, is now* studying the *national* economy *in depth to provide some of the* needed *insights.*

by ANDREA PRAZMOWSKI

The driver attempted to nose the car into the standstill traffic clogging Samora Avenue in central Dar es Salaam, Tanzania. Five minutes later the vehicle was only a few metres along the cracked pavement

"A year ago there was no such thing as a traffic jam in Dar." remarked one of the passengers. "Gas was so expensive few people could afford to drive."

While traffic jams may be a new phenomenon in this East African country, Tanzanians are no strangers to 'lack of forward motion'. In 1986 the country was only slowly emerging from the depths of a six-year crisis that had forced the economy to a standstill and then sent it into reverse. The crisis was reflected in steadily declining real incomes, acute shortages of basic consumer goods, and high unemployment. Each year from 1976 to 1984 the Gross Domestic Product (GDP) dropped. and inflation rose between 11 and 36 percent. The balance of payments deficit soared as foreign exchange became scarce and domestic industrial output dropped to less than a third of capacity.

Numerous causes for the dizzying descent of the economy have been cited, including the 1979–80 escalation of world oil prices, collapse of export commodity prices, high interest rates, a series of droughts, Tanzania's dependence on a few expon crops, and the burden of the war with Uganda. Critics also blame inappropriate domestic policies such as pricing disincentives to farmers, increasing regulation of consumer prices, and the Ujamaa (socialist) villagization program of the early 1970s.

Since the government embarked upon a three-year Economic Recovery Program (ERP) in 1986, the economy has been picking up speed. The greatest acceleration has been in the flow of foreign capital following the signing of a long-debated agreement with the International Monetary Fund (IMF) in September 1986. That opened the gates for agreements with other donors worth a total of US$800 million per year in loans and grants, plus a rescheduling of the foreign debt and support for ERP.

Now, under President Ali Hassan Mwinyi, Tanzania is undergoing a major transition as it attempts to rebuild its economy and meet the conditions of the international loans.

The Tanzanian shilling has been substantially devalued—from 17.5 shillings to the U.S. dollar in June 1986 to 56 to the dollar in April 1987. Meanwhile, the black market rate has dropped to 140 shillings to the dallar from a June 1986 figure of 180 to the dollar. The IMF agreement calls for further devaluation, until parity is reached.

Producer prices for export crops have been increased and the 1986 production of three main export crops—coffee, cotton, and cloves—showed encouraging incrases. Major consumer price incrases were applied to items such as clothing and textiles. An import liberalization policy has made luxury items widely available in majar cities, in stark contrast to the empty shelves which symbolized the economic crisis. Trends show the government's target of 4 percent growth for 1987 is likely to be met.

Economic modelling

While the ERP and the IMF agreement seem to have set the economy in motion again, many critics are asking to what degree these measures compromise the basic principies of Tanzanian socialism—equality, participation, and self-reliance—that have guided the nation for the past two decades. For example, how will higher consumer prices affect the quality of life of the poorest sectors of Tanzanian sociery? Such questions, of course, cannot be answered in a vacuum. What is needed is reliable information on the mechanics of the national economy, as well as a framework or model for predicting the impact of economic policy options.

In the University of Dar es Salaam's economics department, an IDRC-supported team of researchers is now working on such a model. In effect, it is charting a map of the Tanzanian economy, with the hope of making it easier for the government to navigate whichever economic path it chooses. The work, begun in 1983 and headed by Drs Benno Ndulu and Nguyuru Lipumba, includes a number of sectoral studies on agriculture, industry, the public sector, the external sector, and savings and investment.

"In any developing economy, things are naturally moving more quickly than in a stabilized economy," says Dr Samuel Wangwe, an industrial economist and Dean of Arts and Social Sciences at the University of Dar es Salaam. "But that's when you especially need a model—to be able to simulate the outcome of various policy measures."

The project is also designed to develop the expertise of Tanzanian economists and to improve the ability of Tanzanian negotiators to hold their own in discussions with international agencies.

The researchers are being assisted by economists from the University of Toronto, in Ganada, headed by Gerald K Helleiner. About 15 economists, from borh universities and the Tanzanian government, are involved. Although similar research has been carried out by individuals, such a large-scale and intensive study of Tanzania's economy has never been attempted.

Dr Idris Rashidi, director of research for the Bank of Tanzania, says he welcomes any research that will help the government depart from its tendency towards "crisis management".

Income distribution is one measure of equality that is used by the government and which the researchers are trying to incorporate into the model. Prior to independence the ratio of highest to lowest income was estimated at 100 to 1. The government now claims the ratio has dropped to 7 to 1 because of its wage regulation policies.

"I can't buy that," says Dr Wangwe. "Income inequality has been under-rated. Many people in the villages are earning below the minimum wage of 1000 Tanzanian shillings (US$18 in April 1987) per month, but some people who are getting (maximum) salaries of 7000 Tanzanian shillings (US$125) are also getting fringe benefits such as free housing, free cars, and free servants, bringing their actual salaries up to 40 000 or 50 000 shillings." And, in order to survive on low wages, most people find a way to earn a second income, according to Dr Wangwe. University administrators are not exempt. Dr Wangwe's family raises chickens and pigs, and he also operates a transpon service using his own small truck and a hired driver. His net monthly income is 5000 shillings (US$89), but with his "sideline activitres" he estimates his actual income at 20 000 shillings (US$357).

The "under-rating" of income inequality illustrates one of the first obstacles the researchers faced—a lack of reliable data. In gathering statistics for the sectoral studies they are slowly filling that gap.

The team began its work by formulating a preliminary model based upon previous research and available data. With the help of their Toronto counterparts, the group then identified the model's shortcomings and the gaps in data. The model has been readjusted and is being tested, and will continue to be refined as more subtleties are uncovered, explains Dr Wangwe. Throughout the process, the information is being shared with policymakers in the government.

Second economy

A major feature of the Tanzanian economy, one which characterizes its instability and poor performance, is its vigorous unofficial sector known as the "parallel market" or "second economy". Another IDRC-sponsored study group is concentrating on this sector, which researcher Mboya Bagachwa describes as "visibly vibrara".

Before the study group was formed in 1986 the total value of all second economy activity was estimated at 10 percent of GDP. However, the group now puts it closer to 30 percent—"a conservative estimate", according fo Mr Bagachwa.

The range of activity outside the official economic structures is vast—from cottage industries such as tailoring and street-corner shoe repair, to land speculation, smuggling, foreign exchange transactions, and the operation of private markets for goods and agricultura1 products.

Officially, goods production and distribution are regulated by numerous parastatal agencies and crop authorities. The reality is otherwise. For example, the government estimates that 75 percent of all rice and maize produced is sold privately. It is important to have accurate estimates of such second-economy activity. Otherwise, important economic indicators such as GPD, savings, productivity, employment, and inflation are not reliable.

The study of the second economy illustrates the team's belief that valuable information will come from the various sectoral studies, and not only from the end product, the macroeconomic model.

Agriculture is the heart of the economy. so dissecting its problems is a rop research priority. This sector accounts for 80 percent of foreign exchange earnings and employment and cantributes 40 percent of GDP. With a mere quarter of Tanzania's 16 million hectares of arable land under cultivation, the potential for agricultura1 growth is immense.

A major policy question involves increasing prices as an incentive to producen While official records show production did increase after such a move, the question is whether the increase was real or whether higher government prices merely lured producers from the unofficial market where prices had traditionally been higher. This is but one example of the numerous policy issues being studied by the research team in its efforts to better understand the various sectors of Tanzania's economy.

Some observers say major structural changes in the economy will inevitably result from the government's recovery program and the IMF agreement. In fact, Enrique Rueda-Sabater, resident economist with the World Bank in Dar es Salaam, suggests the macromodelling exercise may be premature in light of the present instability of the Tanzanian economy. He says a macromodel is most useful when the job at hand is to "fine tune" an economy, and Tanzania is not yet at that stage.

Dr Wangwe, however, says he doubts the IMF agreement will lead to structural changes that will affect the functioning of the model. "It may make certain policy measures more important than others—for example, it may make prices more important than administrative allocation of resources—but it doesn't change the model."

Photo Andrea Prazmowski

Cheaper oil has spawned traffic jams in Dar. The economy, like the streets, shows signs of renewed life.

Nevertheless, the researchers acknowledge the limitations of the model. As Dr Lipumba wrote in a preliminary paper for the project: "We are dealing with a fragile economy that has not established a basic structure whose parameters can be correctly estimated However, the modelling exercise may improve the understanding of certain key relationships and the estimation of some of the equations may provide a better understanding of the outcome of past policies." ■

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