



ABSTRACT

STRUCTURAL ADJUSTMENT AND INTERSECTORAL SHIFTS IN TANZANIA A COMPUTABLE GENERAL EQUILIBRIUM ANALYSIS

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Since 1986, Tanzania, like many other countries, has experienced a remarkable political and economic transition. Formerly a one-party state with a planned economy, the country is now a multiparty democracy with a market-oriented economy. Over the past 15 years, Tanzania has, in fits and starts, undergone a series of economic reforms, including currency devaluation, tariff reduction, domestic tax reforms, and increased investments in infrastructure. The country's economic performance under these structural adjustment efforts has improved substantially in many respects. Until now, however, little was known about the effects of the reforms on specific sectors of the Tanzanian economy and on efforts to alleviate poverty in the country.

Structural Adjustment and Intersectoral Shifts in Tanzania analyzes how stabilization and structural adjustment policies have affected the country's economic growth, sectoral performance, welfare, and income distribution. It attempts to determine whether economic reforms have actually made ordinary Tanzanians better off—and if so, which of the country's citizens and economic sectors have benefited the most and the least. It focuses in particular on how economic reforms affect the agricultural sector, comparing the effects on agricultural exporters with those on farmers who produce for the domestic market. Through a sophisticated economic model, the study provides a much deeper understanding of the workings of the Tanzanian economy than previously available. It offers important insights

and new analytical tools for policymakers in Tanzania, as well as for other countries undergoing the complex transition from central planning to free markets.

The author's major analytical tool is a computable general equilibrium (CGE) model of the Tanzanian economy. The CGE model allows macroeconomic analysis, as well as analysis of the economy at sectoral and market levels. Wobst also constructed a social accounting matrix (SAM) for Tanzania, which was based on 1992 national accounts data. The SAM provides a detailed picture of the country's socioeconomic structure and provides the base data for the CGE model.

AGRICULTURAL BIAS

Many developing countries structure their domestic tax systems in ways that disadvantage farmers and discourage agricultural production. Such policies are often referred to as "urban bias." Structural adjustment programs often implicitly target such bias, aiming to improve the agricultural terms of trade and stimulate food production.

Historically, Tanzania's economy showed a bias against agriculture, but the study found that reforms had nearly eliminated it by 1992. By that time, some elements of the Tanzanian tax system actually *protected* agriculture, levying a heavier tax burden on nonagricultural sectors. Currency devaluation and tariff reduction were probably the most important factors in the near-elimination of agricultural bias in the Tanzanian economy. The study also found that "agricultural bias"

is a more appropriate description for such policies than “urban bias,” since it is farm households, not rural households in general, that are particularly hurt by them.

CURRENCY DEVALUATION AND TRADE

Gradually eliminating foreign trade deficits by devaluing the domestic currency is a crucial part of any World Bank/International Monetary Fund structural adjustment program. The study found that devaluation of the currency has caused substantial structural changes in Tanzania’s economy. Tanzania is highly dependent on imports that cannot be substituted by domestic production. Thus, to achieve trade balance, exports must increase significantly, since imports are unlikely to decline enough to close the deficit.

Export agriculture is far less import-dependent than other export sectors in Tanzania, and the agricultural sector, in general, is less import-dependent than the industrial sector. Thus, currency devaluation has stimulated export agriculture in Tanzania, while discouraging domestic agricultural production. In other words, farmers who do not produce for export have been relatively disadvantaged by the currency devaluation. Currency devaluation also has led to some contraction of Tanzania’s gross domestic use, because of declining imports, declining production of goods that require imported inputs, and increased exports. Finally, it has also led to a shift of labor from domestic to export agriculture.

POLICIES FOR THE POOR

Tanzania is still one of the poorest countries in Sub-Saharan Africa, and its now-liberalized economy remains extremely vulnerable to internal and external shocks, as the 1996–97 drought and the 1997–98 El Niño floods highlighted. The vulnerability of the Tanzanian economy—and of the country’s poor—makes it important that complementary policy measures be designed to enhance the effectiveness of structural adjustment while minimizing its costs.

The study found that complementary policy measures, such as investment in transport, communication, and marketing infrastructure, could reduce the negative effects of currency devaluation on the domestic agricultural sector. Such policies help farmers more cheaply and effectively bring their production to domestic markets. They also tend to help the poorest households, which are generally engaged in small-scale farming of nontraded food crops, by gaining them more effective access to and participation in markets.

Overall, the study found that infrastructure investments can help offset overall negative impacts of currency devaluation and other macroeconomic reforms. They can also improve the cost-efficiency of international trade. In general such complementary policies make structural adjustment easier, more efficient, and—most important—more equitable, in terms of income distribution. In other words, appropriately designed structural adjustment can be pro-agriculture and pro-poor, with lower costs and less negative impact on overall economic welfare.

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