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Situation social policy in economic transformation

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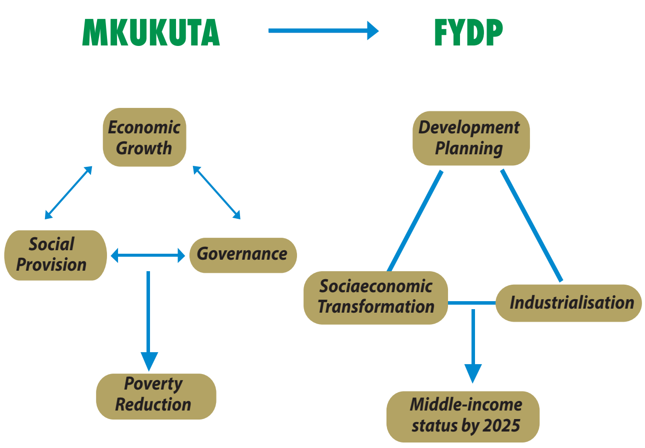
Introduction

The overarching objective of Tanzania's Vision 2025 is that Tanzania should achieve middle-income status by 2025. In order to achieve this development objective, the goal of *economic transformation* has been placed at the heart of Tanzania's development vision. The last decade witnessed a shift in macroeconomic policy away from earlier concerns with growth and poverty reduction, as exemplified by the MKUKUTA framework, towards concerns with development planning for growth and economic transformation, as exemplified in the FYDP framework, as illustrated in Figure 1 below.

Figure 1: Tanzania's Development Planning - From MKUKUTA to FYDP



In the new phase of planning for the Five-Year Development Plan II, the synergistic and complementary role of social policy in relation to economic policy was emphasized. But this raised the question of how to harmonize the MKUKUTA and FYDP frameworks to ensure that issues of poverty reduction and human development remain at the center of the policy thrust in the drive towards industrialization and economic transformation. It is with this question that this policy brief is concerned.

The separation of the social and the economic in contemporary policy making

In a broad sense, social policies can be defined as "collective interventions in the economy to influence the access to and the incidence of adequate and secure livelihoods and income" (Mkandawire, 2004, p. 1).

While this definition encompasses the traditional roles of social policy in terms of achieving particular redistributive, protective, and productivist goals, it also highlights its potential to play a transformative role within the process of industrialisation and economic transformation. It is important, therefore, to give careful consideration to the space for social policy within development planning, which involves thinking about the role of social policy in much broader terms than has been the case in recent years.

For example, after the era of structural adjustment, the HIPC initiative of the late 1990s led to social policies becoming much more prominent, but this renewed emphasis on social policy took place within a perspective of bifurcation of economic policies confined to economic sectors on the one hand, and social policies confined to social sectors on the other. This bifurcation is noticeable in the layout of the MKUKUTA policy framework, in which the two sectors feature side by side, each with its own set of policies and indicators. This view of two separate spheres – the economic versus the social – has largely remained dominant, thus ignoring that economic and social policies tend to be mutually constitutive in nature rather than operating side by side.

Is there a trade-off between economic and social policies?

One implication of viewing economic and social policies as constituting two different spheres, each with its own sectors and policies, is that a key policy question then becomes which sphere should take precedence over the other, particularly during a phase of rapid industrialisation and economic transformation aimed to achieve middle-income status within a medium term perspective. In other words, the policy and planning problem is framed as a trade-off in the allocation of scarce resources between economic and social sectors.

One influential view is that wealth has to be created first before it can be spent on social welfare, and, hence, the economic should take precedence over the social. Wealth creation requires a focus on investment, and, hence, in order to enhance growth, consumption needs to be restricted in order to maximize the resources available for investment. This negative role of consumption in economic growth is further assumed to be particularly pertinent for government consumption and social spending in particular. Thus, while social development is seen as a desirable outcome of economic development, social policy is considered a poor instrument for achieving economic development.

A notable exception, however, is the recognition that social investments in health and education – like education and skill development and targeted healthcare – should be prioritized alongside efforts to improve market efficiency. Within this approach, therefore, social policy should seek to improve the *supply-side* aspects of human development that fuel the development of human capital, while supportive but limited provision of essential safety nets should be created to alleviate hardship where necessary.

Such an approach, however, is very different from an engagement with social policy where social and economic policies are treated as mutually constitutive, i.e. where social and economic policies both achieve social and economic outcomes simultaneously and hence cannot be separated in successful planning processes. If the relation is seen as constitutive in nature a trade-off will still need to be made, given the scarcity of available resources, but not between the social sector on the one hand and the economic sector on the other. Rather, if treated constitutively the policy making and planning process needs to identify a combination of policies in which synergy can be constructed between social and economic policies to propel the process of socioeconomic transformation and development (Mkandawire, 2004, pp. 1–4).

The role of consumption and effective demand in economic transformation

As argued above, macroeconomic policies have tended to adopt a supply-side approach concerning the role of social policy in economic development. Consequently, the role of effective demand and consumption in shaping economic outcomes in Tanzania has been underplayed. The lack of attention to effective demand is not unique to Tanzania, however, and the view that the main constraints facing developing countries result from a lack of productive capacity rather than from shortages of effective demand is widespread. Consequently, the interface between economic and social policy tends to be only perceived in terms of whether or not social policy contributes to the development of productive capabilities – for example, by investing in education for the development of human capital. And, similarly, the focus in development planning tends to be perceived mainly in terms of rapid expansion of productive capacity, particularly in manufacturing and industry, by prioritizing investment over consumption. In other words, from a planning perspective, a trade-off is said to exist between investment and consumption, which requires limiting consumption to boast investment as a vehicle for growth. But this ignores that, from a demand-side perspective, investment implies consumption.

Investment engenders consumption in a double sense. First, the production of investment goods (factories, farms, roads, but also hospitals and schools) implies the increase in employment and, hence, in wages and salaries, thus generating a second round of spending on wage goods, much of which within the domestic economy. This is the familiar direct multiplier effect of investment. Second, investment increases productive capacity which, once it becomes operational, generates a stream of consumption and industrial backward linkages within the economy. Planning, therefore, needs to take explicit account of the recurrent implications (including the growth in consumer demand) of its investment strategy.

Failure to do so can have important unintended economic consequences. For example, during the Ujamaa period, the investment ratio – the share of gross capital formation in GDP – was exceptionally high during the second half of the 1970s, reaching a high of 31% in 1980. Moreover, this period witnessed the rapid expansion (admittedly from a very low starting point) of industrial productive capacity:

industrial investment nearly quadrupled over the 1968–79 period, while value added nearly doubled and, most interestingly, employment in industry increased nearly threefold during the same period. (BOT, 1982, p. 114), which shows that dismissing the experience of the 1970s on the grounds that it focused solely on social sectors and ignored the economic sectors is incorrect. A salient feature of this process of rapid expansion in industry (as well as in social provisioning), however, was that *capacity creation* went hand in hand with falling *capacity utilization*, a problem that became particularly acute in the late 1970s and early 1980s (Wangwe, 1983; Lipumba, N., Ndulu, B., Horton, S. and A. Plourde, 1988). This contradiction came about as a result of the adverse interplay of supply constraints (including the foreign exchange constraint) with demand effects fueled by the process of rapid accumulation (Wuyts, 1994).

An important corollary for development planning today concerns the linkage between the growth in development expenditures and its consequences for the growth in recurrent expenditures it engenders. Boasting the growth in development expenditures while restraining the expansion of recurrent expenditures, for example, can bring forth a similar conflict between increasing *capacity creation*, on the one hand, and falling *capacity utilization*, on the other, particularly also within the provisioning of health care or education.

The productive impact of social provisioning and the social impact of economic policy

Mackintosh and Tibandebage pointed out that 'health care is often represented as a purely "social" sector, implying that health care expenditure is a burden on the economy' (2016: p 1). Instead they argue that, 'on the contrary, health care is economically productive, and that health care in Tanzania could be more economically and socially productive if health policy and industrial policy were more closely integrated'. Their argument, however, is not just based on the premise that health care directly contributes to creating a more capable, energetic, skilled and productive workforce (and, hence, contributes to the development of human capital). They further argue that health care itself is a productive sector, not only in its own right (as employer of a large number of people), but also in terms of broad range of consumption and industrial backwards linkages it engenders within the economy. The reason is that health care provisioning requires large amounts of goods and services as inputs in its own production and in response to the multiplier effects created by wages and salaries paid within the health care industry.

A similar argument could be made for other 'social' sectors such as, for example, education and water. The main point is that these sectors which seek to pursue social objectives are nevertheless deeply embedded within domestic economic activities and require close integration of social with economy policy as constitutive elements in the challenge of matching economic production with social needs.

But economic policies can also be an important vehicle to attain social objectives. Indeed, Fredric Lee argues that "economics is the science of social provisioning" (Lee, 2005, quoted in Cumbers et al 2015). This perspective is particularly important when it comes to the relationship between employment, productivity, and pay. This relationship constitutes a key mechanism linking economic growth and transformation with poverty reduction and social development. An important normative assumption embedded within the contemporary debates around the importance of economic transformation is that when labour moves from lower productivity activities in traditional agriculture and in the informal economy to higher productivity activities, this should lead to rising wages. It could even be argued that "an economic strategy that generates more and better paying employment in good conditions may be the best 'cash transfer' programme of all, since it would give the poor access to jobs that provide more income and more dignity" (Ghosh, 2011, p. 855).

Social policy as mediator between needs, effective demand and production

The relationship between needs and effective demand often goes unexamined in economics because of the assumption within mainstream economic theory that consumption patterns and hence patterns of demand reflect subjective preferences of individuals rather than underlying needs (Bugra and Irzik, 1999). But recognizing the role of human needs in shaping consumption and patterns of effective demand can help to provide a bridge between social, macroeconomic, and industrial policies. A key role for social policy is to bring about a greater convergence between societal needs and demand, which in turn, effects the ways in which productive capabilities develop within the growing economy.

Cash transfers, employment programmes to alleviate poverty, and forms of social intervention that render public provisioning accessible to the poor provide typical examples of using social policy to bridge the gap between needs and demand. But the issue is more general and also concerns more directly the interaction between the economic and the social.

For example, the introduction in Tanzania of pan-territorial food pricing of food crops (maize, in particular) during the early 1970s was based on "the idea of encouraging regional egalitarianism through ensuring that producers throughout the country would receive the same price for their maize" (Bryceson, 2007; 85). From a narrowly economic perspective, this policy could be (and has been interpreted) as highly inefficient, and, hence, an expensive mistake. Yet pan-territorial pricing also dramatically changed the spatial structure of food production in Tanzania since it gave rise to the Big Four (Iringa, Mbeya, Ruvuma and Rukwa) emerging as major food surplus producing areas in the country. Moreover, within a longer-term perspective, pan-territorial pricing could actually be seen as an example of a successful *infant industry* policy. The reason is that its effects in creating a new spatial structure of food production capabilities were sustained and further developed well beyond the demise of the actual policy initiative that gave rise to them. For example, the statistical annexes of THDR 2014 show that nowadays these four regions rank at the top end of the distribution of regional GDP per capita.

Yet, in dealing with issues concerning economic growth and transformation, "the emphasis has been on building technological capabilities through satisfaction of demand, without much probing of the choice of demand to satisfy" (Srinivas, 2016, p. 80). But history has shown that, while in some cases major advances in social development came to a halt or were even reversed because of adverse effects in terms of sluggish economic development, in similar vein, other cases showed that rapid economic growth and transformation did not always go hand in hand with broadly shared social development, but instead accentuated economic inequality and social polarization. Indeed, as Srinivas further argued, no explanation of this interrelation would be complete unless "we attend to why a state so capable along one dimension, can be so wanting in another" (*ibid*).

From a planning perspective, therefore, what is needed is a capacity for problem solving on the part of the state to reconcile industrial and social goals as an essential part of development plans (Srinivas, 2016). Looking at social policy from this broader perspective opens the door for a more context-specific transformative and constitutive approach to inserting social policy and its relation to economic policy within development planning.

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