SOME PROBLEMS OF POLICY IN THE MANAGEMENT OF THE PARASTATAL SECTOR IN TANZANIA: A COMMENT

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A number of the problems of policy relating to the management of the parastatal sector that are widely discussed in Tanzania, especially by social scientists (as contrasted to practising managers), are very similar to those that have been debated for several decades in the socialist countries of Eastern Europe. Most of the general issues of policy related to the problem of 'socialist management' with which Tanzanians are struggling are still unresolved in the socialist world generally, in the sense that there is still no unanimity of view on anything but the broadest and most 'non-operational' principles. Everyone agrees, for example, that social welfare must be given pride of place, but that in itself does not help in making decisions on how this is to be done and of evaluating the weights to be attached to different aspects of it. Moreover, Tanzania is, as indeed is any country, unique, in the sense that it is characterized by its own peculiar and special concatenation of circumstances to which policy and practice must be appropriate.

Parastatal enterprises in Tanzania are, strictly speaking, primarily holding companies, but in this note I shall be concerned with their associated or subsidiary companies, chiefly in industry, for in the end these are the basic units of production. Broadly speaking, the major problems of policy relating to parastatal management at the level of the discussion in this paper can be grouped in three categories: those related to the objectives or goals of enterprises, which at the same time, of course, will be the criteria against which their performance will be judged; those relating to the means of inducing enterprises (and workers) to perform in the manner and at the level desired—the incentive system as it is usually called, which overlaps with the first category; and those relating to the locus of control, the discussion of which sometimes becomes reduced to a debate over what is 'true' socialist management.

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Objectives and Criteria for Appraisal

The question of the objectives or goals of an enterprise is usually put in the form of the emphasis that should be given to profitability, which is also usually contrasted with 'social' objectives and often assumed to be inconsistent with such objectives. Since enterprises will be judged, and their performance appraised, in the light of the objectives set for them, we are necessarily also dealing with the criteria for judging performance when we discuss objectives. In discussing the National Development Corporation of Tanzania, Mramba and Mwasansu note that:

> The National Development Corporation is expected to operate on a commercial basis and at the same time serve other socialist objectives . . . . Socialist management implies structural changes of the existing management system as well as heavier emphasis on social as opposed to economic criteria of performance . . . The National Development Corporation has attempted to marry the two, simply because our social economic position is too weak to allow for the pursuance of only one of the possible alternatives. . . .
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> Exclusive emphasis on the social criteria would imply heavy government subsidies of unprofitable enterprises which is not possible now and which, may, in fact, encourage laxity among workers and managers and impose unnecessary strains on an economy with limited results. On the other hand, maximisation of profit alone would give no sense to the Arusha Declaration and socialist development. [1]

In fact, however, an attempt to 'marry' profitability and social welfare as objectives does not arise from the weakness or strength of the social and economic position of a country. Most socialist countries try to do this simply because over wide areas stress on the profitability of an enterprise in itself serves social goals. Profitability in operations is one of the easiest and most effective checks on and incentives to efficiency, and is, in addition, an efficient way of raising capital for investment. Moreover, losses must be subsidized, and direct subsidization increases both administrative and financial problems.

Profitable operation of an enterprise merely means that the costs of acquiring and organising factors of production, raw materials and other inputs to produce final investment or consumer goods can be met from the revenues from sales, leaving a surplus which is available for further investment in the enterprise for the payment of taxes, or for any other desired uses. Thus, with any given level and structure of prices and any given distribution of income, profitability reflects the efficiency of the firm on the one hand and the willingness of the community to buy its products on the other. If goods and services are desired which cannot be produced at a profit in given circumstances, it may be that prices are 'wrong', that the distribution of income is socially unacceptable, or that there are social benefits or costs which are difficult to take account of.

1. See B.P. Mramba and B.U. Mwansasu, "Management for Socialist Development in Tanzania: The Case of the National Development Corporation", *African Review*, Vol. 1 No. 3 pp. 41-42. The authors note that even capitalist organisations do not exclusively maximize profits, but it should also be made clear that not even the most dyed-in-the-wool free-enterprise capitalist theorists would ever support profit maximization as good social policy unless there was widespread competition in the economy. If firms and enterprises are monopolistically organized, as is often necessarily the case in countries with small markets, or as is often a matter of policy if enterprises are publicly owned, profit maximization would not only mean excessively high prices to consumers but also mis-allocation of resources since output might well be restricted far below the 'social optimum'.

In these circumstances, direct subsidies may be desirable. But apart from this, it is hard to see why enterprises should not be expected to operate profitably; if they do not do so, the causes of the lack of profitability should be examined and dealt with directly. And if it is considered desirable, for example, that certain commodities, e.g. bread, should be available at prices below costs of production because it is not practical in the short run to deal with the maldistribution of income that is usually associated with this kind of problem, direct subsidies of prices are appropriate.

But the question of profitability in the management of parastatal enterprises comes in at two other levels: as a criterion for the selection of investments (project appraisals), and as a criterion for the judging of performance. With respect to investment by the National Development Corporation in Tanzania, eight criteria for project selection are listed, three 'primary' and five 'secondary', of which the first listed is profitability.[2] In weighting these criteria in any given case, the difficulty of course lies in the nature of the 'trade-off': how much to sacrifice employment to improve industrial linkages, or location to increase investible surplus, etc.—there is no need to elaborate. But in all cases it is necessary to quantify the costs and benefits in order to make proper comparisons, and the common denominator most commonly used for this purpose is money.

When 'social' objectives are involved, the problem of quantification is a source of serious difficulty. There are well-known techniques of project appraisal for taking account of some social costs and benefits, but it cannot be denied that the techniques often provide only rough approximations of true social cost or benefit. Nevertheless, it is not practicable to leave costs and benefits out of account since resources are scarce and must be allocated, and to allocate is also to choose. If a private firm is asked to take account of any particular social objectives in making an investment, it would expect to have an estimate of the increased costs to which it would be subjected and then to be compensated by a subsidy. Similarly, if public enterprises are involved, the differences in costs should be estimated and a clear decision made whether or not optimum social policy requires that they be accepted. The starting point is plainly the effect on the profitability of the enterprise.

All this has implications for the operations of an enterprise, and brings us to the second level where profit criteria are used in socialist as well as in other countries to judge the efficiency of performance. Pressure on management to make profits (avoid losses) is a powerful incentive to efficiency, to eliminate waste, improve organisation, buy materials carefully, etc. If a project has been located in a costly place, if managers are expected to maximise employment at increased costs, to operate to support rural activities which reduce the efficiency of the enterprise, or to accept any other socially desirable but financially costly objectives, the direct costs of which are not clearly specified and provided for in the accounts of the enterprise, there is a great danger that they may feel that they are being asked to ignore efficiency and that they then use the costs of these other objectives as an excuse to justify existing inefficiency.

2. Mramba and Mwansasu, *op. cit.*, pp. 37

Judging from the complaints in the press of socialist countries, as well as from studies of these problems, socialist managers elsewhere often tend to concentrate on meeting the social objectives or 'targets', so far as they are mutually consistent, and to let efficiency in the operation of the enterprise take a distinctly secondary place in their calculations. Thus, when managers are required to ignore efficiency in some directions and to accept lower profits and even losses, special efforts must be made to ensure that they do not become demoralized, so to speak, and ignore efficiency in other directions as well. The most effective way of ensuring this is to make specific financial allowances for the social costs they are asked to incur and to insist that after deduction of such costs the enterprise make a profit.

The situation of a nationalized enterprise that I once visited in Egypt clearly illustrates the kind of problem that arises. The enterprise was making losses and the management was very upset precisely because it had to accept these losses for social purposes in the formulation of which they had not been consulted. The enterprise made an intermediate product used by other enterprises in the industry. It had been located badly for social reasons—badly, because water was not easily available and was very costly and for this factory water was an important input. This raised its costs. At the same time its sales prices were controlled in order to keep down the cost of the finished product. The firm which purchased its product made profits, but the selling firm had consistently to accept losses. The energetic and able young managers of this firm thought this most unfair and were becoming very dissatisfied and demoralized, even though they had been assured that there were sound social reasons for this state of affairs. They were proud of their enterprise, proud of the job they were doing, and wanted the public recognition of their efficiency that profitability in operations would involve. They did not like their 'image' as an unprofitable firm.

The problem is not, of course, exclusive to socialist or public enterprises. In large private corporations some subsidiaries may be required by central management to take losses or make only nominal profits for the sake of the firm as a whole. In every case, special attention has to be paid to the feelings of management, and special efforts must be made to ensure that there are other checks on efficiency. Profitability—(that is to say independence of external subsidies, whether from the central management of a firm or from the public purse—the avoidance of being a dependent of the Treasury) is everywhere one of the major criteria for judging enterprises, and it is extremely difficult to argue that it should not have an important place. This is not to deny, of course, that there is widespread desire to accept indirect subsidies such as tariffs, tax rebates, special allowances, assistance in price maintenance, etc.

The Problem of Incentives.

From the above, it will be seen that the question of profitability and efficiency blends into the incentive problem—methods of persuading firms to run their businesses in the way desired. One can use direct controls for many things, but the more such controls there are, the more they are likely to impose inconsistent directives on enterprises, leading to evasive action on their part. It is stated that the National Development Corporation is not very favourable to productivity bonuses for workers (and I presume that this also applies to management) nor to overtime payments. This may be because of the desire to prevent inflation or to keep down income differentials; similar problems have arisen in other socialist countries and have been met in a wide variety of ways. But the trend, I think, is to try to simplify the number of controls and objectives and to try to use profits, combined with direct subsidies where desired, for incentive purposes as well as criteria of efficiency.

For things that require individual attention, direct controls are often particularly clumsy instruments. Much of agriculture is in this category and many types of quality products. It has been noted that this is one reason why it is often easier to implement new projects than maintain effectively installations once they are built: simple orders to 'maintain equipment (buildings, roads) in a working condition' or similar prescriptions hardly suffice to ensure the attention required. Thus, there has been a widespread tendency to decentralize, to give enterprises a greater degree of autonomy as time goes on in order to encourage individual attention, initiative and innovation, and to lay the responsibility for these on the enterprise itself.

It is important to realize that incentives relate not only to individuals but also to organisations as a whole. As indicated above, men like to be proud of the organisation to which they are attached and in which they spend a large part of their working lives, and it is important that there be objective evidence of 'success' to which they can point with pride. Profitability is a convenient measure of success even in a socialist environment. Hence the achievement of profitability, in addition to the service of clearly defined social goals, can be used as a strong incentive to management which can be separated from the financial rewards of the managers themselves, although bonus systems of various kinds are almost universally used in socialist countries.

The Locus of Control.

Whether or not extensive direct controls and highly centralized state management is the most efficient way of organizing industrial activity in relatively developed countries, it is nevertheless possible that where industrial development is in a very early stage, a large degree of direct or centralized planning and control may be suitable and reasonably efficient if the manpower is available to make it work. Unfortunately, this latter condition is often not satisfied. In spite of this, however, it is widely argued that the desired 'structural change' of the economy cannot be achieved in any other way. Whether or not this is the case (and to evaluate this argument is not my purpose here, nor is it relevant), the relation between central planning and control and 'workers' participation' as called for by the 'Guidelines' for Tanzanian socialism cannot be evaded. On the one hand, there is the central plan, the directives of the government and the priorities laid down by it; on the other, there is the question of workers' control, some devolution of decision-making power into the hands of workers.

As is well known, this problem became one of the major issues in the development of industrial management in Yugoslavia, and at times the debate there centred on the question whether or not 'true' socialism required workers' control and decentralised planning. One can discern the outlines of a similar debate arising in Tanzania when people discuss the Plan in relation to the *Mwongozo* of TANU. Decentralisation based on workers' management became a central tenet of Yugoslav socialism, and according to one study of Yugoslav economic management

> The Yugoslavs never adequately resolved which instruments should be used to guide the enterprises to conform to social objectives, or how to use the instruments without destroying the rational basis of decentralized economic decisions and without devitalizing the concept of workers' management.[3]

Thus, there are two equally important aspects of the problem: the extent of workers' participation or control within the enterprise, and the degree of control by the enterprise over its own activities, that is to say, its degree of autonomy and the degree of participation permitted the enterprise in economic planning as a whole. Workers' participation in the management of an enterprise, in whatever degree, and whatever the type of enterprise (co-operative, business unit, or even *ujamaa* village) will have little meaning if the enterprise itself is merely a tool of some superior agency and has itself no autonomy; it becomes an empty gesture and would soon be seen as such. Consequently, decentralization of macro-economic management and control becomes part of the general question of workers' participation and control.[4] To try to enforce central control and to promise workers' control is to invite trouble.

On the other hand, there are evident possibilities of compromise in delineating clearly the areas in which decentralized management is acceptable (which implies an area of autonomy for enterprises in this context) and where, therefore, workers' participation can have some meaning so far as the enterprise is concerned, and the areas in which centrally determined decisions will be enforced. Centralization and decentralization should be looked on as complements, not opposites, but effective workers' participation is inevitably affected by the balance attained.

It is clear that as Tanzanians think through what they mean by socialist organization of the economy and by socialist management, they will have to face squarely issues that have, as yet, not been resolved in older socialist economies which have attempted to introduce some sort of genuine industrial democracy in the management of their economies. Tanzanian leaders have indicated that they do not want to adopt a thoroughly centralized 'command economy', but the various views of the type of organization that should be created are, as yet, not entirely consistent, even at the government and party level.

3. D.D. Milenkovitch, *Plan and Market in Yugoslav Economic Thought*, p. 296.
4. It will be recalled that issues of this type were hotly debated among British socialists before and after the first world war, with no clear concensus emerging.