

THE ECONOMIC CHALLENGE

Dialogue or Confrontation

Address-given by President Julius K. Nyerere to the Royal Commonwealth Society

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The Economic Challenger—Dialogue or Confrontation

Mr. President of the Royal Commonwealth Society; Your Excellencies; Ladies and Gentlemen.

I have chosen to speak today about Poverty for three fairly obvious reasons. First; Poverty or more specifically the relations between the rich and the poor - is a very topical, and in some quarters, contentious subject. Second: this is a Commonwealth Society. At Singapore in 1971, in its Declaration of Principles, the Commonwealth declared "We believe that the wide disparities in wealth now existing between different sections of mankind are too great to be tolerated" Both at Ottawa in 1973, and at Kingston earlier this year, Commonwealth leaders have been discussing what should be done about these intolerable disparities between rich, and poor. So the Commonwealth is concerned. And third; my country does not belong to the Third World. In the latest parlance it belongs to the Fourth World. Poverty is a very urgent matter to us; along with the Freedom Struggle it is at the core of all our national activity; it would therefore be absurd for me not to talk on this subject with you.

I would like to make it clear from the outset that I am not pleading for aid for Tanzania. I have already expressed my appreciation of the assistance we have been receiving from this country, and the new Aid which has been agreed upon. Whenever the occasion has demanded I have expressed Tanzania's appreciation for the Assistance we have received from other friendly countries and from International Organisations. But I am going to argue that the whole concept of Aid is wrong. I am saying it is not right that the vast majority of the world's people should be forced into the position of beggars, without

dignity. In One World, as in One State, when I am rich because you are poor, and I am poor because you are rich, the transfer of wealth from the rich to the poor is a matter of right; it is not an appropriate matter for charity. The fact that in a nation state there is a government which arranges this transfer of wealth, but that in the world there is no equivalent authority to do this work, makes a difference as to how the transfer should be effected. It does not make any difference to the requirement that a transfer be made. The rich countries are on the same planet as the Third and Fourth World nations; human beings inhabit both. If the rich nations go on getting richer and richer at the expense of the poor, the poor of the world must demand a change, in the same way as the proletariat in the rich countries demanded change in the past. And we do demand change. As far as we are concerned the only ' question at issue is whether the change comes by dialogue or confrontation.

It is not necessary, with this audience, to dwell on the existence of poverty in the world, or on the gap between the poor and the rich. It is generally accepted that more than half the world's population live in countries with per capita Gross National Product of less than \$200 per annum. Professor Tinbergen, the Dutch Nobel Prize economist, has estimated that 10% of mankind consumes 25 times as much as the remaining 90 % of the people. And the situation is getting progressively worse. Mr. MacNamara has stated that between 1960 and 1970, 80% of the world's increased production of wealth accrued to countries where the per capita income was over \$1,000 per annum at the beginning. Only 6% of the increase went to the 50% of the world's population where the per capita national incomes started the decade at \$200 or less.

There is nothing accidental about this situation. At any one time there is a certain amount of wealth produced in the world. If one group of people grab an unfair share of it, there is less for the others. When Tanzania's oil bills went up from about Shs. 200/- million in 1973 to Shs. 750/- million in 1975, that was a reduction in our wealth and an increase in someone else's wealth. Tanzania has less money available to spend on things

other than oil; the oil producers have more. The amount of wealth has not changed—only its distribution.

But—to continue this example—Tanzania is not only paying the extra costs of the oil which Tanzania consumes. My country, and others like it, are also paying the extra amounts which rich nations now have to pay to the oil producers. Let me explain. Modern agriculture requires the use of oil. But Tanzania cannot set its sisal prices to take account of the extra production costs. The price of our sisal fibre exports are set in Europe and North America. The things which Tanzania seeks to buy with its sisal exports, however, do have their prices adjusted to meet the extra oil costs involved in their manufacture.

But rich countries do not only increase the price of a tractor to the extent of the extra oil costs directly involved in producing it. They also make the new price compensate the workers and the owners for the higher oil prices involved in producing the goods which they want to consume. For the workers in wealthy countries get "cost of living" increases to prevent their standard of living from falling. And the owners seek to arrange that their profits should not go down in real terms. Both these costs are covered by additions to the price of the goods they sell. As a result we do not only pay from our poverty for the extra wealth acquired from us by the oil producers. We also compensate the people in the wealthy countries for any loss which they experienced through a transfer of wealth from their economies to the oil producers. In effect, the rich countries index their manufactured exports, so as to make sure that the relationship between their exports and their imports does not change to their detriment.

Nor is that all. The wealthy countries expect to increase their standard of living every year—that is the declared aim of their governments. They do it partly out of increased investment. But when we poor countries buy your machines we contribute to that increased level of wealth. For the higher wages are regarded as a cost of production, the higher taxes for public services within a wealthy country are regarded as a cost of

production, profit—required, they tell us, to make production and new investment possible—is taken out of the fixed prices at which we must buy.

Let me give an example of what this means to the development of a country like Tanzania, which has no ability to produce its own capital goods. In 1973 we made the first estimates for an integrated timber production and paper mill project. On the basis of comparable projects elsewhere in East Africa the cost of the paper mill was estimated at \$60 million. At the prevailing price of sisal that was equivalent to 215,000 tons of sisal—less than eighteen months' normal output. But in June this year the World Bank gave us revised estimates for the paper mill. The cost had gone up to \$200 million. Despite the temporary higher sisal price owing to the drought induced drop in supplies, this was the equivalent of almost 460,000 tons of sisal—over 3 years production. The sisal price is now dropping back quickly; there is every reason to suppose that the real cost of this mill will increase much further before it is appropriate to call for tenders.

Recently we were forced to devalue our Shilling. The devaluation will itself lead to higher production costs for our sisal and everything else which uses imported fuel or tools, and will therefore cause a further deterioration in our overall economic position.

I must stress that the redistributive effect of the world economic system in favour of the wealthy has nothing to do with the oil producers. By a quirk of circumstances they have been able to turn the system to their advantage temporarily, and can now defend themselves against it to some extent. We were suffering from the system before 1973; oil prices are just an extra burden—although a heavy one. In 1965 I could buy a tractor by selling 17.25 tons of sisal. The price, of the same model in 1972, needed 42 tons of sisal. Even during the much talked of commodity boom of 1974 I still needed 57 % more sisal to get the same tractor, than I did 9 years before. And now the sisal price has fallen again, but the tractor price has gone up still further. For the tractor price is fixed according to two criteria: first, those costs of its production which will enable its producers to enjoy a high standard of living; and second, what the

market will bear—which is determined by competition among the rich. And Tanzania will either buy at the price set, or go without. Conversely, we shall either sell our sisal at prices fixed by competition among the rich countries, or we shall earn no foreign exchange from it at all. Both ways we are, in the words of one of your economists, "price-takers, not price-makers".

There can be no mistake about that. In a so-called free market economy, economic power depends on wealth. The wealthy can determine what will be produced because only they have power to invest. They can determine the price levels of the goods produced in their own countries and elsewhere because they have the power to buy, or to withhold sale. The poor buy or sell at whatever price suits the wealthy.

Further, wealth gives the rich the power of direct decision making over the economies of the poor. Thus, for example, only a tiny proportion of the world's shipping is owned by the poor countries—the four East African countries by joining together have managed to acquire just four ships. This means that we—like all the other poor countries—have to pay in foreign exchange virtually all the costs of transporting goods to and from East Africa; almost none of these costs find their way back into our economies as payment for services rendered to the transporters, still less as profits on transportation. And all decisions are made by the ship owners from the wealthy countries. We have no say in the pattern of transport; Tanzanian attempts to build up trade with Mauritius and Australia across the Indian Ocean have so far foundered on our inability to influence shipping routes. Further, freight charges, including comparative rates for different goods which we import and export, are fixed without our having any say in the matter. It is understandable therefore that we are very suspicious when these rates appear to discriminate against processed goods from East Africa, as when it costs \$44.40 to transport a ton of raw cotton to the mills of Europe, but \$110.50 to carry to Europe a ton of textiles. — There may be good reasons of transport economics for some of the difference. But our suspicions are not absurd when we consider these charges in the light

of tariffs and quotas imposed by the rich countries to protect their industries against what they call unfair industrial competition from the poor.

There is nothing self-correcting about the present system. The expansion of production requires investment. And without any effort at all, the rich can afford to invest very much more than the poor. The World Bank estimates that O.E.C.D. countries will invest an average of \$835 per capita per annum during the 1970s. They are investing about half of it in military production. The rest they are investing to meet the dictates of effective demand in the world; that is, according to the anticipated demands in the rich consumer societies, and therefore primarily in such things as colour television, improved motor cars, supersonic planes etc. The countries with a per capita income of less than \$200 per annum will probably invest about \$16 per head every year during this decade. Most of that will go on such things as education, roads, agriculture, and the most basic kinds of industrialisation. The result of the existing inequalities in the wealth of the world will therefore be a geometrically progressive expansion of the gap between the rich and the poor, and also an ever greater proportion of the world's resources being devoted to non-essential production.

I am not one of the 'doom merchants' in the environment discussion. But the resources of fossil fuels, of clean air and water, etc, are finite. The more we waste, the less there will be available in the future for meeting basic human needs of food, clothing, and shelter. It is already questionable whether the earth could sustain even its present population if everyone consumed at the rate at which America consumes. Yet the world's richest country aims at increasing the rate at which it gets richer. The Soviet *Union* has a declared goal of "catching up with America". In Britain it seems to be generally accepted that doubling the standard of living in 25 years is a justified ambition. And so on.

Man can only eat so much, and wear so many clothes, and live in one place at a time. That is why in rich societies an ever decreasing proportion of the national wealth is devoted to meeting these basic human needs. But while human needs come to an end, the

desire for power and prestige through the acquisition of material goods is insatiable. So is desire prompted through a determination to 'keep up with the Jones's'.

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Without hesitation or apology I assert that if the wealthy nations—and I include Britain, Australia, Canada, and New Zealand in that category—still have an ambition for material growth and greater consumption, then they need to ask themselves whether they are serious in their desire to reduce the gap between rich and poor countries, and eradicate poverty from the earth.

A serious attack on the problems of poverty and intolerable disparities of wealth demands a change in the whole direction of world economic activity. Instead of aiming at the maximisation of wealth, and the power over others which comes with it, we have to direct our effort towards the creation of reasonable standards of living for all people. This applies to the rich and to the poor—nationally and internationally. Nations which are already wealthy have to accept that they are members of the world, with the right to a fair share of the world's resources but no more. They have to bend their minds, and their economic and political systems, to achieving a fair internal distribution of their existing wealth. They should not expect to continue to deal with problems of comparative poverty within their own nation at the expense of people abroad who are poorer than their poorest. And the poor nations have to face facts too. They need to stop trying to ape the rich. They have to accept that "closing the gap" does not mean, and cannot mean, attaining for themselves a western style or level of consumption.

I hope, however, that I have already said enough to indicate that however great an effort the poor countries make they cannot overcome their own poverty in the foreseeable future. This is not strange; none of the industrialised countries started their progress without injections of external capital, even when world technology was much less complicated and costly than at present. Nor can redistribution within the poor societies solve their problem of poverty.

Tanzania, like most poor countries, is making a valient effort to increase its wealth-producing capacity. Although our per capita annual national income is now \$137— or S89 in 1966 prices,-- our gross capital formation is

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currently running at just over 21 per cent of our G.D.P.. At the same time we are trying to reduce wealth-inequality within our own nation. At the time of our independence in 1961 our post-tax wage differential was 50 : 1. Today it is 9 : 1. It is not enough, especially as 40 per cent of our farmers have a real income less than two thirds of the purchasing power of the minimum wage earner. But the truth is that however much we reorganise our economic system to serve the interests of the mass of the people, and however much our government tries to weight the income distribution in favour of the poorest people, we are merely redistributing poverty, and we remain subject to economic decisions and interests outside our control. The amount of wealth we can produce is subject to the weather, which no one can control. But it is also dependent on economic decisions made by the wealthy nations in the interests of making the rich even richer. And the real value of that proportion of our poverty which we set aside for investment depends entirely on the prices of capital goods—which are set outside our own country.

Consider what this means. The one million unemployed in this country are assured of their food, the education of their children, and so on, through the workings of social security. They have a legal right to their unemployment pay, and the society accepts their moral right to it when they are out of work through no fault of their own. Yet the unemployed, and those who fear unemployment, feel that they have somehow lost dignity. It should therefore not be too difficult for Britain to understand the feelings of the world's poor, who are expected to beg for a chance to eat and a chance to benefit from the work they are doing.

And Britain as a nation just now feels very vulnerable to forces outside her control. Her people watch to see what is happening to the economy of the U.S.A., and the economies of Europe, because that will affect what happens to Britain's balance of payments, the

value of sterling, and the growth or stagnation of the British economy. But Britain's predicament arises from the need to adjust at a high level from being one of the most powerful nations of the world to being just one of the wealthy group. The poor countries have an even greater vulnerability, and for them it is the basic necessities of life which are at stake.

In truth, the problem of poverty, and of the national dependence and humiliation which goes with it, will only be tackled at its root when the endless pursuit of economic growth for the sake of growth ceases to be the major objective of national and international policies. The objective must be the eradication of poverty, and the establishment of a minimum standard of living for all people. This will involve its converse—a ceiling on wealth for individuals and nations, as well as deliberate action to transfer resources from the rich to the poor within and across national boundaries. The Leaders of the Rich Countries must have the courage to tell their people that they are rich enough.

Of course, such a change could not be achieved overnight, even if the will to change existed. Eradicating human poverty demands careful planning and phased action to move the industrialised world—and the industrial sectors of the poor nations—towards producing for human needs and not human greed. The poor do not gain from economic chaos and collapse in the rich nations; we are the first to suffer when the industrialised world experiences a recession. But the planning for change, and the action towards change, must take place.

It can take place without universalising human misery. The productive capacity of the world is great enough to provide decency for all if it is properly directed. The prescriptions are known. It is not ignorance which prevents the world from moving its economy towards a new direction.

I do not propose to detail the recommendations which have been placed before the Commonwealth by the Committee of Ten set up at the Kingston Meeting. There are just three points I wish to draw to your attention. First, in an endeavour to secure a unanimous Report the "Wise Men" from the poor countries endorsed a document which they believe

to be dangerously weak. Second, the Interim Report hopes only that its recommendations would arrest declines in the living standards of the poorest developing countries, and accelerate the rate of growth in the rest of the developing world. Given the existing situation, Dialogue could hardly aim at achieving less! And third, the emphasis is on removing obstructions to the ability of the poor to help themselves, and on the necessity to counter the automatic manner in which the present system works in favour of the rich by an equally automatic transfer of wealth from the rich to the poor.

Measures to make the world system work automatically in the direction of reducing the gap are, to our way of thinking, absolutely crucial. The proposed S.D.R. Development Link is one example of such a mechanism. It would make resources available to the poor countries, as of right, which they could use to increase their internal development effort and to buy more from the industrialised nations. In the process, some extra weight would be given to the effective demand for basic—as distinct from luxury—production, at the same time as a contribution is made to reducing the poverty gap. The only reason I can discover for the rich countries' opposition to this proposal is that the transfer of wealth would be automatic, and therefore not subject to political influence. In other words, "it would do something to make the independence of the poor a little more meaningful!

The Commonwealth Committee of Ten also stressed the need for the United Nations Aid Targets to be met, and to be increased to 1 per cent of the rich countries' G.N.P. They point out that to reach this target all the rich countries have to do is to retain 95 per cent—instead of 100 per cent—of the amount by which they may reasonably be expected to get richer in the next five years. One would not have thought this was a demand for self-sacrifice. Yet the political likelihood of even the 0.7 per cent target being reached can be judged by the experience of the last fifteen years. The developed nations are currently contributing about 0.33 per cent of their annual G.N.P. to the poor countries through Official Development Assistance. This is a lower percentage than was being given in 1960, and even than 1965. Indeed, measured in constant prices, many

countries—including Britain and the U.S.A.—were contributing less in the early seventies than they were in the mid-sixties. Only Sweden out of the 17 Development Assistance Committee members has reached the U.N. assistance target of 0.7 per cent of their G.N.P., although the Netherlands expects to do so this year. And Norway has made the vital political decision that it has a responsibility to use at least some of its increasing wealth in the fight against world poverty. It is therefore currently expanding its aid allocation by about 40 per cent a year, and by 1978 will be using 1 per cent of its G.N.P. for genuine Aid, with higher proportions in the years thereafter.

The difficulty is, of course, that Aid to the poor countries is still looked upon as voluntary, and generally as charity which the government should only give after all the demands of its own citizens have been met. But serious people would not expect poverty within their own country to be dealt with only through charity. And the absence of a World Government does not make another system impossible. The U.N. is financed by payments made according to a binding formula; the obligation to pay has the weight of an international law. An equally binding formula could be worked out for the transfer of resources from the rich nations to the poor nations. That simply demands a once-for-all exercise of political will.

For basically that is the need. Tackling the problem of poverty in the world is first and foremost a matter of political will and determination. It involves a commitment to changing the life-style of the rich world, and abandoning the acquisition of prestige through wealth as a life-objective. I understand that some people are in any case already urging such a change on the grounds that it is necessary ecologically and would improve the quality of life in the developed world. But the question, as the poor see it, is not whether there should be changes in the present world economic situation; changes will come one way or another. The question is when, and how, they will be brought about.

The Commonwealth exists because political demands for independence were not resisted too long; negotiations over the

transfer of power were held with nationalist leaders. I think it is how generally accepted that this was a wise and beneficial move for all those directly involved and for the world in the economic sphere. The nationalists were happy to co-operate in arranging a smooth political transition. Equally, the leaders of the poor nations want to work with the rich overcoming world poverty with minimum dislocation of the world economy. The countries which decolonized peacefully were those which recognized the right of the colonial countries to Independence and seriously embarked on a process of decolonization. The poor are now saying that Political Independence. Dialogue confrontation will depend upon whether the Rich will recognize that the Poor have a right to Economic Independence and then seriously embark on the process of establishing a New Relationship between Rich and Poor.

The Commonwealth is one Associated in the world. Yet I believe that it can have some influence. At present the world is moving towards a confrontation between the rich and the poor which will do damage to both. I want there to be a dialogue. But dialogue depends upon mutual understanding, and upon action beginning now.

Mr. president; I thank you.