COLONY AND PROTECTORATE OF KENYA

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Report of the Economic and Fiscal Commission

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SESSIONAL PAPER ON THE REPORT OF THE EAST AFRICAN ECONOMIC AND FISCAL COMMISSION

Introduction

In recent years the Governments of Kenya, Tanganyika and Uganda have encountered growing economic and budgetary difficulties arising out of the working of the East African Common Market. In addition the methods of financing the Non-self-contained Services of the High Commission have, by general consent, become increasingly unsatisfactory. Accordingly in 1960 the East African Governments requested the Secretary of State to appoint an economic and fiscal Commission in 1960 with the following terms of reference:—

(*a*) To examine arrangements at present in force in East Africa for a common market area, for economic co-ordination between Territories and for fiscal uniformity with regard to measures now taken—

(i) to facilitate interterritorial trade in products of local agriculture and manufacturing industries and to develop such industries in East Africa;

(ii) to secure uniformity in fiscal and financial matters including methods used to allocate yields from customs, excise and income taxes between Territories;

(iii) to provide the East Africa High Commission with revenue necessary to meet the costs of services administered by the Commission for the benefit of the territories and to apportion the cost of such services between the Territories.

(*b*) To consider the advantages and disadvantages generally of the present arrangements and whether or not these arrangements are economic and are fair to the interests of each of the individual Territories; and to make recommendations for any necessary adjustments, additions or modifications to them.

2. The Report was presented to Parliament by command of Her Majesty in February, 1961, as Command Paper 1279. It was published simultaneously in Kenya and laid on the Table of Legislative Council on 11th May, 1961. The Government wishes to record its appreciation of the work of the Chairman and Members of the Commission and of their Secretary. As will be seen from Appendix A of the Report, the Commission carried out a strenuous and exacting programme of visits and discussions in their examination of this most complex assignment on which they were able to bring to bear a wealth of experience and expert knowledge acquired in part in tackling similar problems elsewhere.

3. The object of this Sessional Paper is to indicate Government's views on the conclusions reached by the Commission. At the outset it is, therefore, necessary to indicate Government's opinion that the Report is to be viewed as an integral whole, which would be upset by the acceptance of some and rejection of other recommendations made by the Commission. If such attitudes were to be taken up by the individual Governments concerned, each accepting the recommendations favourable to it and rejecting the remainder, its implementation would obviously become impossible. The Report must, therefore, be accepted or rejected in its entirety. In view of the benefits received by Kenya along with

the other Territories from the East African common market and as a token of its desire to adopt an East African attitude in place of a narrowly territorial viewpoint, and in the belief that the implementation of the Report will on balance be beneficial to the country and is essential to the maintenance of the common market, the Government accepts the recommendations made in the Report.

The Common Market (Paragraphs 190-202)

4. Though the available statistics do not, in the Government's opinion, entirely support the Commission's contention that the standard of living in Kenya has risen by as much as 40 per cent over the period 1954-1959, or that its growth of real output "has been faster than that of almost any of the more advanced countries of the world", the Government nevertheless accepts the Commission's judgment that Kenya's growth has been more rapid that that of either of the other two Territories. It wishes to emphasize the Commission's conclusion that the common market arrangements have benefited East Africa as a whole and that the strains which have certainly arisen have been due rather to the fact that the benefits derived have been unequal than to the fact that any Territory has suffered an actual loss.

5. The Government notes the Commission's views that the artificial impediments to the freedom of transactions have led to clashes of interest, but lays stress on the remark that these impediments are in many cases part of the established structure of the East African economy. The Government will use its best endeavours to work out a system for joint consideration of prohibitions and limitations on interterritorial trade and for co-ordinating trade and commodity prices as recommended in paragraphs 195 and 196 of the Report. They would, however, be less than honest if they were not to express their view that a basis of F.O.B. export prices for the interterritorial exchange of commodities would be both inequitable and in many cases impracticable. In the first place this would be directly contrary to the position in the European Common Market, one of the main objects of which is to protect the farmers of the Six against the outside world. It would seem that an approach which has been accepted by the highly industrialized nations of Western Europe should be of greater validity in East Africa, where agriculture is, and is likely to remain, the staple industry of the region. Prices of primary products are notoriously liable to fluctuation on world markets and it is essential that efforts should be made to bring a measure of stability to the more important of them. Secondly, it does not seem to follow that because local producers accept lower prices for exports, internal prices in East Africa should be reduced to the same level. The fact is that wheat, flour, beef, bacon and ham, cheese and ghee are produced by Kenya primarily for the East African market and exports represent the margin of surplus over East African requirements. The years in which the margin is large reflect favourable agricultural conditions in East Africa and not any increased export demand. The marketing agencies have consequently to do the best they can to dispose of the surplus at whatever price is obtainable, and in so doing encounter problems of quality, presentation and lack of familiarity with Kenya products. There is, therefore, severe pressure to dispose of these products at or below average costs of production, especially when world competition is severe. A third practical difficulty in implementing this proposal is that it could only be applied where Government can influence pricing policy, since ordinary commercial firms could never be brought to accept such interference in their marketing arrangements. Thus Uganda tobacco and vegetable oils, which are marketed in Kenya through normal commercial channels at about 75 per cent above export parity would remain unaffected, whilst the products of the Kenya Meat Commission, for example, would have to be lowered in price.

6. As regards the point made in paragraph 196 (*c*), it suffices to say that whilst the Government is fully aware that a branch of production can be aided by direct subsidy when raising the price of products is impracticable, it is equally certain that no East African Government has at present sufficient financial resources to permit it to follow such a course except in a very restricted field. In spite of these objections, and comments, the Government will try to negotiate the code of agreed general principles of interterritorial trade and marketing policy enjoined upon it in paragraph 196 of the Report.

7. The Commission concludes this series of recommendations by advising in paragraph 199 that industrial licensing should be discontinued as soon as existing obligations can be equitably discharged. This conclusion is accepted.

The Distributable Pool of Revenue (Paragraphs 203-216)

8. The Commission is of the opinion that existing inequalities in benefits derived by the operation of the common market can be offset by the creation of a Distributable Pool of Revenue and, by pitching the level of the Pool at an annual sum of approximately £3,330,000, of which half is to be employed to finance High Commission services, the Commission seeks to provide an independent source of finance for that organization. The other half of the Distributable Pool is to be divided equally between Kenya, Uganda and Tanganyika. Although, on the basis of the revenue estimated for 1960/61 this would cost Kenya the large sum of about £675,000 in each full financial year, the Government, subject to acceptance by its neighbours, is prepared to accept the recommendation in the interests of preserving the common market and of interterritorial harmony. In accepting this proposal, the Government is considerably influenced by the fact that the Pool contains an automatic corrective to any future fluctuation in territorial benefits from the common market, since the sources of finance chosen by the Commission—namely percentages of the customs and excise revenue and of the income tax on the manufacturing and finance sectors of the economy—will rapidly reflect the economic climate of the participating Territories.

9. This Government has long supported proposals to provide the High Commission with an independent source of revenue, believing this to be essential in order to give it stability and that sense of financial responsibility which independent means bestows. Detailed control of High Commission expenditure will no longer be exercised by the Territorial legislatures, since their voting of funds will in future be confined to those few services which lie outside the scope of the Commission's recommendations, namely the East African Hides and Leather Bureau, the Desert Locust Control and the Royal East African Navy. The views of Governments and of the taxpayer will, however, be voiced by their representatives in the Central Legislative Assembly, which will continue to vote expenditure required by the Non-self-contained Services of the High Commission. Further, the funds at the High Commission's disposal will have a maximum which will vary in accordance with the economic well-being of the three East African Territories and, if that suffers a setback, the High Commission services will have to be proportionately reduced. That this will not hit the services too hard or too suddenly is ensured by the fact that half of the Distributable Pool should produce about £120,000 a year more than current requirements. A margin over expenditure is necessary for a body which has no powers to increase its revenue by taxation.

Additional Recommendations (Paragraph 226)

10. The Government accepts that Commercial Legislation should be added to the schedule of matters with respect to which the Central Legislative Assembly may pass laws, and will enter into discussions with the other Territories' Governments, and the High Commission, with a view to this subject being transferred to the High Commission. In accepting the other recommendations summarized in paragraph 226, it is necessary to point out:—

(*a*) that the Government has been aware for some time that the present correction factor of 0.7 for converting selling values into import values exceeded the figure calculated by the East African Statistical Department by 0.04 per cent which, converted into cash terms, means a loss of £60,000 a year to this Territory. It has, however, refrained from pressing for acceptance of this figure in view of the other Territories' representations that they suffered losses through under-documented transfer of goods. It is ready to accept the Commission's recommendation that this position should continue; and

(*b*) that the cost of implementation of the recommendations relating to income tax made in subparagraphs 5-8 of this paragraph will cost this Territory approximately £12,000 a year.

Conclusion

11. In conclusion it is only necessary to add that the Government intends to bring into force the recommendations made by the East African Economic and Fiscal Commission from 1st July, 1961, so that they might take effect from the beginning of the financial year of both the High Commission and of the Territories concerned.

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