

Development Policy Choice in Ethiopia

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Public deficit, trade imbalance, macro-economic instability, food insecurity, structural unemployment, lack of physical infrastructure facilities, changes in the absolute size of the population (adding two million people over the country every year) and the consequent outmigration and horror stories of immigration makes me to reflect on the choice of development policy in Ethiopia. Development is not only a matter of endowments and opportunity factors; it is also a matter of choice.

What type of policy does the country need? What are the desired impacts of the current development policy and the various instruments it uses to solve constraints? How did the Ethiopian government come to identify and define policy issues? How is policy priority selected? What are the criteria used to assess the economic performance? What are the measures used to address the observed performance weaknesses and how are these measures identified?

Approaches to policy priorities

These questions can be answered using different premises. In the digital media we often read discussion based on the premises of political ideology. While the government considers policy choice as the outcome of collective participation of the people, some opposition groups consider it as imposition of EPRDF power and party agenda motivated by group interests. The calculus of policy objectives based on the premises of political ideology, can in the extreme cases, lead to a tendency to disengage from reality. For instance, if a company is owned and/or managed by individual not belonging to our ethnic group, we expect a complete failure. In a discussion based on the premises of political ideology what can induce change and what governs the actual activities is not performance but belief system.

While I recognize the interaction of politics and economics (political economy of development) to understand the distribution function of the economy, my view is that assessment of policy choice should be based on scientifically-rigorous evidence performance

criteria than mere belief system. There are indeed scientifically based models which explain the design of development policy in Ethiopia. But most models are competing in explaining priorities and some are even repeating and repeating themselves to the extent of excluding others. For microeconomists poor performance is related to access to assets for households and firms, property rights, transaction costs, diffusion of new technology, incentive for new investments, formation of co-operatives, etc. For those interested in sector policy poor performance is related to the overall effectiveness of the sector they are interested and it can be agriculture or education. Sector based analysis focus on the strategy, work plan, financing mechanism and implementation. At this level the policy reform includes investment in research and development, public investment in infrastructure, extension programs, mobilizing saving and credit institutions, etc.

There are also packages of community and right based policies. While the sector policies aim to address mainly the needs and capabilities of the public sector, the objectives of the community and right-based policies are tailored to address the unique development challenges of the community and achievements of the human rights. The community-based approach uses baseline data of the area to design a strategy that strengths the local economy. The objective of right-based development approach is to strengthen the claims of the most vulnerable, such as women, children, minorities, etc. It is mainly concerned with individual or group entitlements to basic services.

Finally we have macroeconomic stabilization policies dealing with inflation, exchange rates, financial transactions, budget deficits, trade imbalance, tax reforms, etc. Depending on their school of thought the blame for macroeconomic performance is put either on the state or market. Those who use aggregate demand model (total expenditure on goods and services) assume that state/government intervention is the primary drivers of economic performance. Those who use aggregate supply model (total goods and services produced) assume market factors/incentives as the primary drivers.

We, therefore, have several approaches and different competing models used to explain policy priorities. Varying in basic, fundamental ways, they make different assumption about the functions and drivers of the economy, use different concepts and categories, and explain the economic performance differently, and suggest different policies. The question is should the weight be given to individual factors or the validity of competing explanations. My view

is that all policy suggestions are basically true and they complement each other. The difficult task is how to structure them and find sequence and timing among suggested reforms.

Identify structural policy priorities

There is no development policy without underlying objectives. My approach is that development policy should aim at solving short-term consequences of rapid population growth (economic shortages including food insecurity, unemployment, private and public deficit), and long-term consequences related to labour productivity, human development, structural and spatial imbalance and environmental degradation. Development policy should nurture the ability of the country's economy to recover from backlogs (long-term consequences of population growth) and adjust to new downside or additional economic shortages (short-term consequences of population growth) to which the country is inherently exposed. The country should follow a type of development policy that provides possibilities for short-term adjustment (shock counteraction) and for longer-term changes in the economic structure itself (shock absorption). In other words, the country's development policy should bring the future into the present. The country cannot solve the short and long-term consequences of population growth without productivity increase and structural transformation.

From this perspective, I find the Growth and Transformation Plan (GTP) of the Ethiopian Government very interesting and relevant. The question is what is that one can find out in the policy package? I have already presented my reflection on GTP two years ago (see http://aigaforum.com/articles/reflection_on_gtp.php). I found GTP very much influenced by its preceding policies of agricultural and export-led growth, which I assume are conceived on the basis of incremental and selective approaches to reforms. "Basically what GTP intends to do is a scale up process. My question is can a scale up process (quantitative ambitious growth targets) bring about fast and intense structural transformation (a qualitative change in labor productivity)? Reproducing oneself on a larger scale may not bring about structural transformation. The essence of structural transformation is the introduction of technology to dramatically change the output and employment structures."

GTP could not clearly identify structural policy priorities that focus on hosts of microeconomic factors. I advocate policies of green revolution technology and industrial

decentralization to increase labour productivity and production scale. Even if GTP aims to double the domestic agricultural production, there is no green revolution document showing how to solve constraints and achieve stated objectives (see reference). In case of industrial decentralization, GTP does not contain programs of rural industrialization.

It is beyond the scope of this article to discuss the reform packages of green revolution, industrial decentralization and population policy: What should be done? How it should be done? Who should/could do it, and how it can be adopted to existing policy framework. For the purpose of illustration and examples, I will make a list on the question “how it should be done” (limited again to employment generation and productivity levels):

- First, state-led green revolution (meeting the demand for green revolution by the regional state and private entrepreneurs).
- Second, irrigation led green revolution by smallholder farmers in areas of comparative advantage
- Third, rural industrialization as related to green revolution inputs (for creating horizontal linkages). The demand for agricultural inputs depends on the stage of green revolution itself.
- Fourth, food processing industries in small towns (to link agriculture and manufacturing through agro-industries)
- Fifth, institutional reforms (land reform) for the purpose of resource reallocation particularly in areas where labour density per cultivated land is high.
- Sixth, to speed up division of labour and specialization both in the agriculture and small manufacturing sector, focus on human capital development. Increasing returns to scale depends on specialization and division of labour among smallholder agriculture.
- Parallel with these reforms; introduce institutional changes (around market factors as an example) and programs of fertility decline to speed up capital accumulation needed for green revolution and rural industrialization.

I do not have space and time to discuss further the macro and microeconomic policy instruments (incentives and disincentives) required to realize the different process. My own study on the consequences of rapid population growth in Ethiopia and historical case studies of China and India shows that there will be no growth and economic structural transformation in Ethiopia without the policies of green revolution and industrial decentralization.

To conclude, given the severity of the country's economic problems there is very little discussion about development policy. Instead what we have is more of split political discussion and debate. I believe that governance by democratic institutions and political stability are necessary to all policy performances. I think there is a broader recognition across the political spectrum, both in the government and opposition parties. As I see it the economic problem of the country is recognized but it has not yet matched by a corresponding discussion on alternative development policy options.

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Further references on alternative development policy and evidence based policy discussion (2010-2011)

http://aigaforum.com/articles/GreenRevo_Industrial_policy_Ethiopia.pdf

http://aigaforum.com/articles/Green_Revolution_PartTwo.pdf

http://www.aigaforum.com/articles/reflection_on_gtp.php

http://aigaforum.com/articles/Green_Revolution_response1.htm

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http://aigaforum.com/articles/Final_response_on_green_revolution.htm

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