As the tide of independence was surging in Africa in the 1960s, advocacy of the modernizing potential of industrialization was regarded as a means of overcoming the traditional African problem of dependence on agriculture. The theoretical insights underpinning this strategy were developed by W. Arthur Lewis. Since Lewis’ prescription, which was critiqued as “industrialization by invitation” model of development, was heavily endorsed by the United Nations and was accepted as the general theory of development for Third World nations. For example, Ghana’s President, Kwame Nkrumah, persuasively argued that the key to Africa’s economic transformation and the termination of its economic dependence was through industrialization, and he employed Lewis as his advisor in Ghana’s structural endeavors. However, later it was discovered that the few foreign-owned industries that were set up had often limited commitment to local development and as they were largely capital intensive, they produced few jobs for the local people. Eventually, as the foreign firms moved their operations to other local offerings that gave them better packages of inducement and conditions, the validity of Lewis’ model of development was seriously questioned for its relevance to the African culture.

With the emergence of Neo-liberalism as a replacement of classical and Keynesian economic thought in the 1970s and 1980s, a number of developing countries were required to meet certain terms and conditions in order to borrow financial capital from the International Monetary Fund (IMF) and the World Bank. Using the ideological tenets of Neo-liberalism, the lending institutions persuaded the borrowing countries to worship the “invisible hand” and subordinate all their activities to the free market system. From a strategic point of view, the borrowing countries were required to abide by the following structural adjustment prescriptions in order to stabilize their economies: 1) stimulate their exports at the cost of growing food for their own citizens, 2) lower barriers to imports, 3) remove restrictions on foreign investment, 4) eliminate subsides for local industries, 5) reduce spending on social welfare, and 6) devalue their currencies.

After adhering to the required draconian conditions laid out by the multi-lateral financial institutions, more than ever the developing borrowing countries were faced with sharply declining living standards, recurring financial crises, rampant inflation and a resulting high rate of unemployment. At the economic level, for example, Africa was marked by 1) low domestic capital formation, 2) declining direct foreign investment, 3) dependence on foreign aid, and 4) heavy indebtedness (Edigheji, 2005). Even those few African countries that have succeeded in attaining high growth rates and social development, they are not the ones that implemented the draconian prescriptions of the Washington Consensus (Commission for Africa, 2100, p. 87).
Unable to maintain their natural resources as an economic base for future generations, the heavily indebted African countries are in a position where they must degrade their natural resources in order to service their external debts. Poverty of Sub-Saharan African countries has been increasing over the last decades as a number of African countries have been paying about $10 billion interest per year to Western financial institutions to service their debts. This amount is approximately equal to four times as much as their spending on health care and educational services (Kaboub 2008). As a result, it is sad to see that Africa is ill-prepared to compete in the global economy and it is even very doubtful that future generations will be able to survive at all with the limited resources that remain.

On the other hand, it worth noting that except during the few years of global financial and economic crisis the world economy faced when the developed countries seemed to have lost the stronghold of their economic powers to Brazil, Russia, India and China (BRIC), by and large the developed countries have been receiving an increasing amount of net financial resources from the developing countries (see for example, Kregel, 2004; Baiman, 2006; and Kaboub, 2008). The Neo-liberal prescriptions failed to charter any significant alternative. It would have meant strategically designing their industrial policies, implementing the necessary social services, and instituting an effective land redistribution system. By following the socialist model of development, a number of African countries halfheartedly and with little or no accountability, or transparency, relinquished total responsibility to their governments to manage and direct their economies. It was believed that “…if the government does not induce development, it will not happen at all (Tadero, 19942).”

Now it is clear that those African states that experimented with the socialist model of state-led economic systems were hobbled by incompetence and ravaged by corruption in malfunctioning bureaucratic systems. Even in the African countries that are endowed with abundant natural resources, poverty has become chronic and is rising at a dramatic rate. The 46 per cent of the total population living below the $1 a day threshold is higher today than in the 1980s and 1990s (Economic Commission for Africa, 2004 and Nkurunziza, May, 2006). Moreover, though the population growth rate in Africa is more than three percent per year, “during 1960-20, 16 African countries achieved average annual real per capita growth rates above 2 percent; 26 countries recorded less than 2 per cent growth; and 11 countries contracted (Economic Report on Africa, 2011). From 2001 to 2011, however, when compared to 4.2% of the global average, in aggregate terms, Africa’s Gross Domestic Product seems to have grown at about 5.2 percent annually. Nonetheless, “Africa’s high growth rates have not translated into high levels of employment and reduction in poverty. …they are also quite volatile, especially in sub-Saharan Africa. One of the main reasons for these two fundamental issues is the lack of structural economic transformation in many parts of Africa (Economic Commission for Africa, 2011, p. 75).”

A case in point, Ethiopia has gathered momentum by recording a steady economic growth for the last seven years. Below the government’s projection of 11.4 percent for the period 2010-11, the International Monetary Fund (IMF) reports that the growth rate may slow down from 7.5 percent in 2011 and is likely to be about 6 percent in 2012 (Davison May 31, 2011). The irony of the matter is, Ethiopia’s high growth rate has not been translated into minimizing
unemployment nor reducing the surging inflation rate. About 50 percent of the men under the age 30 in Ethiopia’s urban areas are generally unemployed (Serneels, 2004). In addition to poverty, inflation has remained a scourge of the Ethiopian economy. More recently, the country has seen an accelerated, double-digit increase in the price of goods and services. As reported by the Ethiopian Central Statistical Agency (2011), Ethiopia’s year-on-year inflation rate rose for a second month to 29.5 percent in April, from 25.0 percent a month earlier, driven by a sharp rise in food and fuel prices as well as an increase of 35 percent in broad money-supply (See also, Hassan, 2011). What makes inflation a special case is that Ethiopia is a low-income country. The increase in the National Consumer Price Index (the main gauge of inflation) has become very detrimental to the low-income groups and retirees who live off a fixed income. The risk of inflationary pressure is reducing the purchasing power of the Ethiopian birr (Dest, 2009).

Given that a large portion of Ethiopia’s population lives in absolute poverty (i.e., less than one dollar per day), it is time that the regime in power identifies the salient factors that are contributing to unemployment and soaring inflation. The combination of the Neo-liberal and state-led economic models that were super-imposed on the Ethiopian environment have caused more serious deterioration than benefits. Because a large portion of real national income has been siphoned off of potential real wages of workers and the down trodden masses, it makes sense to explore other economic models that might contribute to Ethiopia’s sustainable development at full employment and stable prices.

With the high social and economic cost of unemployment and inflation, and the continuing ecological concerns which the Ethiopian economy is facing, can Ethiopia’s economy be transformed to achieve environmentally sustainable development? The Commission for Africa has suggested the use of the Developmental State approach (i.e. a plan-oriented market economy); or should the African economy be redesigned to embrace the “Employer of Last Resort”-led development policy program to achieve full employment at stable prices? In short, the main aim of this paper is to review the pivotal differences between the Developmental State model, and the Employer of Last Resort - led model of development that guarantees full employment to those who are ready and willing to work at a going wage rate? The central question of the study focuses on which of the two models stated above could empower Ethiopians living in decentralized communities at the grassroots level so that they could effectively utilize their resources and address their own needs to achieve environmentally sustainable development at full employment and stable prices? To be continued…

References:


