

Growth, Inflation, Food Imbalance, Unemployment and Rent-seeking: How can best be solved?

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These are issues currently at the heart of the Ethiopian people and government. Finding solution is imperative. Some individuals are taking their time to address these issues and I appreciate their efforts and convinced that they deserve some feed backs. I selected two articles recently appeared on Aiga Forum website. The first article is written by Teshome A. on “Sources of Inflation and Economic Growth in Ethiopia”, and another one by Professor Desta, Asayehgn titled “Can the Employer of Last Resort (ELR) Approach Dissipate Rent-seeking?”

Inflation and sources of growth

Since Teshome nether uses growth accounting model nor equation of exchange when assessing growth performance and sources of inflation, I might miss something related to his assumptions and measurement of determinant variables. Despite a good account on trends of inflations in Ethiopia, I find it hard to accept his conclusion on sources of inflation (caused mainly by excess demand) and economic growth (caused mainly by public investment).

If I understood correctly, Teshome advocates continued economic growth through public investment even in the face of daunting inflation. He wrote “For Ethiopia, economic growth is not a matter of choice; we must maintain higher growth to provide our present or future generations need. By any standard for the country like Ethiopia, it is not acceptable to control inflation by the cost of economic growth.”

He believes that the country cannot solve development problem without growth and if inflation rates start to rise in the process of growth, so be it. He is concerned that the

government might cut back investment spending to curb inflation and this would negatively affect current growth. According to him “continuous, broad base and social development” (which I interpret to mean public investment) is the sources of economic growth in Ethiopia and this type of investment must continue to sustain growth. For him source of inflation in Ethiopia is demand-pull related to consumption growth. “Higher private domestic borrowing and consumption spending contributed for the growth of aggregate demand”. I have two comments.

If the source of inflation is excess demand, then it means the economy is in the condition of full employment and per capita income is on the increase. It means people are getting hired and making more money. But the author has not produced data on per capita income growth and employment rate that can show that many people are buying goods which companies could not produce enough. Unemployment and poverty are still glaring problems in Ethiopia. My observation is that the inflation can be caused mainly by the effort to stimulate investment through lowering of lending rate. I agree with the view of imported cost inflation, but the main cause is the lower loan and interest rate package used to stimulate investment in the country. To curb inflation the government has to review its expenditure budget, government loan and interest rates. But Teshome fears these measures will impair the pace of current economic growth. As I understand public investment is not the only sources of economic growth. In countries where the population size and growth speed is high, productivity (increased worker efficiency) is the main source of economic growth as in the case of China for the last four decades. Capital accumulation (establishment of factories, machines, communication systems) should go hand in hand with increased productivity. In previous postings I discussed industrial decentralization and green revolution as sources of rapid employment creation, income increase and food security. Institutions through which policy variables and political competition are mediated are also important sources of economic

growth. That means we have different sources of economic growth and we should not stuck on the same source for long-term growth.

Rent-seeking and employment creation

The issue of institutional quality brings me to the second article written by Professor Desta.

The article has two interrelated purposes and aspects. The first aspect is about controlling rent seeking behavior which severely distorts productive activity. For instance, rent-seeking by bureaucracy can push up the cost of production of public goods (contributing to inflation).

The second aspect deals with creation of decent employment through the “formation of autonomous communities with little or no government intervention”. Passing power from the state and the market to autonomous communities is considered as a mechanism for reducing unemployment and diminishing rent seeking behaviour. Rent seeking is well discussed in the article and it needs no further discussion. I think the Ethiopian government has also admitted such practice and is trying to curb the behavior through technical and bureaucratic measures.

To reduce unemployment and rent seeking practices, Professor Desta suggested conferring of autonomous power to communities. I would like to add that in addition to politician and bureaucrats the formation of interest groups is essential in the allocation of public resources in the political market. This has been extensively discussed by political economy theorists.

Speaking about the economic environment (i.e., rules that establishes the basis for production, exchange and distribution), I would like to mention from what I observed from developed countries. This is about individual accountability to law. We must practice the idea that each individual is accountable to law for his/her action. We must avoid party or political protection. A good example is the practice of assessing bureaucratic and government program performance within the party. I think this does not work as the economy gets sophisticated. A third important part of the economic environment (in addition to interest group formation and

individual accountability to law) is the free flow of information. Information should be provided to the public and those who hide information should be punished by law. I think that the suggestion forwarded by Professor Desta, Asayehgn on Employer of Last Resort (ELR) model can be realized in an overall framework where we have laws promoting the formation of interest groups, individual accountable to law and conditions of open information spreading.

‘More of the same’ or Path-breaking

I think we have now reached at stage where we either chose the same thing keeps happening (as suggested by Teshome A.) or try something different such as Employer of Last Resort (ELR) model. The spirit of the Growth and Transformation Plan suggests that we explore and apply a variety of critical perspectives. EPRDF has to respond to the crisis in such a manner that the planned reforms lead to better overall outcome. If EPRDF fails to do that, given the presence of alternative ways or choices, then it means there is path-dependency within the party. The programs and policies of the party is continued to be affected by similar interests, attitudes, values and behaviours of some political actors within the party. My view is that old values and behaviours should not shape the trajectory of the new Growth and Transformation Plan. Given the current situations ‘more of the same’ in terms of policy and practice is less and less likely to be effective. This brings a further question about who are the path-dependent actors within EPRDF. The party has decades of experience in conducting internal reforms to cope with the changes to its environment. Now is the time for the party to break-path dependency. I think change is essential for continuity.

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