

Can the Employer of Last Resort (ELR) Approach Dissipate Rent-seeking?

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As pointed out elsewhere, though halfheartedly implemented, the liberalization measures in Ethiopia for the last seven years have contributed to strong economic growth which has lifted the economic and social well-being of at least some of the more fortunate Ethiopians. In contrast, however, the majority of Ethiopians have remained at the margin of this process, failing to share the benefits of economic growth. To tackle the chronic poverty and rampant unemployment that the country is facing, policy makers have attempted more recently to retool the country's economic structure to mirror the East Asian Developmental State economic model. Accordingly, the policy makers in Ethiopia have embarked on the five-year Growth and Transformation Plan. To rekindle hope for Ethiopia's economic future, Ethiopia's Developmental State Model has been guided by very strong government intervention in the market, giving power and authority to the government bureaucracy to plan, supervise, and implement the developmental processes of the country.

With the benefit of hindsight, it needs to be pointed out that over the years the government has attempted to design a number of policies and reforms such as the Sustainable Development and Poverty Reduction program (SDPRP) and Plan for Accelerated and Sustainable Development to End Poverty (PASDEP). Had the intended plans been implemented systematically there is no doubt that they could have achieved their intended goals. However, many of the fruitful projects were unduly delayed because the governmental functionaries lacked the professionalism and commitment needed to mobilize the limited resources of the nation (See Desta, July 7, 2011). In other words, if the Ethiopian functionaries had been willing to operate efficiently to address the economic challenges of the country and if government intervention had been implemented carefully, there is little doubt that these plans would have generated the greatest welfare for the largest numbers of Ethiopians. However, as pointed out by Fischer (2011) one of the missing preconditions that caused the failure to adopt sound developmental policies in developing countries in Africa was the lack of consideration of the prevalence of rent-seeking behavior.

Other than the standard economic constraints such as resources, technology and unforeseen exogenous shocks, the rent-seeking behavior prevalent in country could have challenged the implementation of reform policies in Ethiopia. Therefore the central purpose of this study is to review rent-seeking conditions or abuses of power by government officials to take into account their possibly formidable impediment to the implementation of various poverty-alleviating programs in Ethiopia. If Ethiopia is affected by rent-seeking, could addressing the challenges of rent-seeking serve to create positive opportunities to bring about a positive transformation? Therefore, the first part of the paper reviews the concept and the significant attributes of rent-seeking. The second part compares the difference between the Developmental State and the Employer of the Last Resort (ELR) models in terms of rent-seeking attributes. The third and final part focuses on the effects of ELR in the formation of autonomous communities with little or no government intervention so that they may serve as benchmarks for initiating an

environment conducive to the enhancement of output and a reduction of the level of unemployment in Ethiopia.

The Attributes of Rent-Seeking Behaviors: The term rent-seeking behavior as it applies to developed countries was first discussed as an abstract concept by Gordon Tullock in 1967. But, the concept was operationalized to be amenable for research by Anne O. Krueger in 1974. In conventional economics, the term is generally used to represent a payment for the use of a resource (land, labor, capital, ideas, etc). In contrast to profit-making, rent-seeking behavior can be operationalized as the ability of individuals or entrepreneurs to extract uncompensated wealth for non-productive activities from others over and above the marginal cost of the product. As discussed by Fischer (2010), some attributes of rent-seeking in many developing countries “...are characterised by poor policies and weak institutional settings, where corruption and embezzlement are rampant and privileged interest groups manage to capture a large share of the nation’s income in a decidedly non-productive way.” In other words, since rent-seeking is a means of resistance to reform, it may be seen as a kind of ‘legitimized theft’ purposely designed by government officials to appropriate rent in order to maximize its utility for embezzling funds and demanding bribes from their clients (See Kaufmann, 1998, p. 524). In addition, rent-seekers may also be powerful interest groups or lobbyists who exert considerable influence and who bribe government bureaucrats to hinder other competitors so that their inefficient companies win governmental tenders. As described by Kornai (1979) rent-seeking behavior is also applicable to soft budget constraints that describe the bailing out of predominantly public companies which receive transfers from the government when revenues do not cover costs. In other words, in a static sense, a rent-seeking payment is any manipulation of the work environment so as not to give wages or render compensation to an entrepreneur as a reward for contributions that approximate his or level of productivity. In a dynamic sense, however, rent-seeking is regarded as inefficient, detracting from social welfare because it strongly encourages entrepreneurs to spend real resources to prevent competitive market outcomes through lobbying action for monopoly power. From an ethical point of view, rent-seeking is an integral part of an ailing economy. It is reprehensible and socially undesirable because it fosters rewards for unproductive agents instead of rewarding those who have contributed to societal welfare (Falchamps, M. 1989).

As mentioned above, based on policy formulation strategies, Ethiopia has introduced well- planned reforms that are meant to address the country’s poverty level. However, the policy outcomes of the various projects have not been implemented adequately. Reasons for this are many, either the donor conditionalities were not whole- heartedly endorsed by the ruling party, or the government’s decisions to introduce reforms lacked coalition support by policy advisers and technocrats, or perhaps it was due to the lack of technical and capacity-related problems, or to use the former socialist countries economists’ phrase, privatization has become “an orgy of sweetheart deals” because many state-owned companies were sold below market prices. There is also the possibility that the existence of various rent-seeking groups took strategic advantage of resisting reforms and implemented rent-seeking delays and setbacks. Given the prominent characteristics of rent-seeking, the question that needs to be addressed is: In order to bring about full employment can rent-seeking interference in Ethiopia be minimized by using the Employer of Last Resort (ELR) rather than the Developmental State Model currently in use?

Briefly, the Developmental State Model assumes that the state in its developmental affairs needs to be managed by a bureaucracy for which highly disciplined professional functionaries and technocrats are recruited based on meritocracy to fulfill the clearly spelled out functional obligations. However, as mentioned before, if Ethiopia desires to use the state as a very important vehicle to tackle its deep-rooted developmental problems, it needs to improve the competence of its public administration sector and to encourage its public employees to remain politically neutral. As it stands now, Ethiopia's developmental state is neither operating in a market-friendly environment nor does it mirror the country's socio-political and economic realities. Moreover, a number of the government-initiated developmental plans are either obstructed or unduly delayed for implementation because the professionalism of some of the government functionaries lacks commitment to mobilizing the limited resources of the nation for development purposes. They appear to be interested in maximizing their utilities by imposing hidden rent-seeking agendas. The Ethiopian political and economic environment seems confounded giving the appearance of operating as a centrally-planned economic system. Rather than adhering to the principles of developmental state, the bureaucracy is not disciplined; its management system manifests extreme forms of inefficiency and endemic corruption. Thus given that the existing Developmental State Model is dysfunctional and has been an obstacle to implementation of the well intentioned poverty-minimizing reforms because it is engulfed by rent-seeking attributes, it needs to look at the Employer of Last Resort (ELR) model as an alternative model for minimizing the rent-seeking behavior in order to empower local citizens and achieve full employment.

Respecting the fundamental right to work, the ELR framework needs to focus on guaranteeing full employment by governments to those who are ready and willing to work at a minimum wage in sustainable activities. The ELR not only stimulates productivity and lowers unemployment and inflation but it plays a vital role in stabilizing the economy by reducing economic fluctuations (Wary 200, and Becker, 1993). Therefore, given that Ethiopia is endowed with abundant natural resources, the implementation of the Employer of Last Resort (ELR) management system needs to be structurally and financially independent from the centralized bureaucratic system. To achieve locally-based cooperative enterprises, the ELR need not be dependent on benevolent rulers or non-governmental organizations. Though funded by the national government, if the ELR is to be fully implemented, the Ethiopian government needs to be willing to relinquish its direct control and allow self-managed cooperatives at the grass roots level to become actively dependent on labor-intensive projects.

In short, if the ELR type of people-centered cooperative organizations, managed by democratically elected local leaders were to be implemented in a decentralized way, the empowerment of local communities would present the greatest potential for the development of domestic resources, and end cyclical unemployment. In addition, employing the most vibrant working-age Ethiopians based on the powerhouse development of a full employment program led by the ELR will likely empower the employed to be involved in their own environmentally sensitive projects to reduce poverty and the overall socio-political and economic exclusion of the marginal groups in Ethiopia.

To conclude then, when we compare the modus operandi of the Developmental State that is being currently practiced in Ethiopia with the Employer of Last Resort paradigm that is

proposed, we find that by design or default, the Developmental State seems to be heavily influenced by a rampant rent-seeking environment as a result of institutional factors. The conspicuous rent-seeking behaviors that have become detrimental to the implementation of reforms in Ethiopia include weak institutional settings, where corruption and embezzlement have become quite obvious. For example, the conversion of the Ethiopian economic system from socialism to a Revolutionary Democratic State that converted state-owned enterprises to privately-owned firms was affected by ‘an orgy of sweetheart deals.’ Therefore, from an ethical point of view, rent-seeking behavior in Ethiopia is reprehensible because unproductive agents were being rewarded indirectly instead of paying directly those economic agents who accomplished their societal obligations.

Thus, if the Ethiopian government wants to see the implementation of its well-designed reform packages, it has to give up the Developmental State paradigm which has become synonymous with rent-seeking. Instead, it has to entertain the Employer as the Last Resort (ELR) model of development. As discussed before, the ELR approach introduces new community-based employment dynamics in decentralized public sectors in order to hire hardcore unemployed individuals who are willing and able to work at a minimum wage in sustainable activities. More importantly, rather than the complex Developmental State apparatus run by government officials who may have a rent-seeking agenda, the ELR is not affiliated politically. It focuses on creating communities with local level participation that is supervised by watchdogs chosen by the community. Participation, if managed by the representatives of the community, has many advantages. First, it enables the participants to benefit from the experience and insights of each other. Second, participation can ensure that policies and programs are truly responsive to the needs of vulnerable groups. Third, participation empowers the poor and the unemployed, a vital step toward poverty alleviation because lack of power exacerbates poverty. Finally, with the community as stakeholders and working in collaboration with a decentralized ELR, officials can facilitate innovation and create new knowledge (Warner K. and Kirschenmann, F. 2007 and see also, Schutter, O and Vanioqueren, G, August 2011).

Rent-seeking practices could change strategies and take countervailing actions. Therefore to implement the ELR approach, the supervisors and employees of the decentralized ELR organizations need to be extensively trained and undergo a thorough experiential learning process and be highly encouraged to master their professional ethics. As argued by Fischer (2010, p. 554), a promising strategy and an effective way “to strengthen the civil society is to bring politics closer to the population by decentralization (restructuring and strengthening local government). Communicating responsibilities and making local civil servants and politicians personally accountable for benefits and failures adds (significant) non-monetary value to adopting sound policies and delivering high-quality public services.” Rent-seeking behavior is part and parcel of an ailing economy. If Ethiopia has the desire to be out of the deep-rooted rent-seeking environment and achieve full employment, it is worth mentioning that employees of the ELR institutions need to be bestowed with the passion to help the socially marginal to be productively employed and counteract as much as possible the reemergence of hybrid rent-seeking types of behaviors in the country.

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