

STABILISATION, REHABILITATION AND STRUCTURAL ADJUSTMENT IN ETHIOPIA'S ECONOMY: A LOOK AT LINKAGES BETWEEN REFORM MEASURES

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1. INTRODUCTION

The Transitional Government of Ethiopia (TGE) has just devalued the birr by more than 140 per cent, raised bank lending and deposit rates and increased official procurement prices of export crops. This follows the enactment earlier of a public enterprise reform law (TGE, 1992b) and a new investment code (TGE, 1992a). A significant revision of the labour code is also expected shortly. The new measures come at a time when the Government is believed to have reached agreement with the IMF on a Policy Framework Paper as a step towards expected negotiations on access to adjustment lending facilities of the Fund and of the World Bank. This and pronouncements of high level officials on media appearances can only suggest that we are witnessing a policy reform programme that includes on its agenda the creation of official markets in foreign exchange on credit the completion of domestic price decontrol that started with the March 1990 reform of the food grain market (PRDE, 1990). Significant liberalisation of foreign trade policy and reorganisation of industry through public sector reform, possibly combined with a privatization scheme, are expected at some later stage.

The purpose of this paper is to sketch the relationship between these and other measures as links in a sequence of policy changes aimed at the establishment of an incentive structure conducive to long-term growth, the correction of macro-economic imbalances and the rehabilitation of social groups and infrastructure dislocated or disrupted in the course of the war. The exercise might rather look like something of an overkill since the reform measures are already on the Government's agenda and are standard elements of "Structural Adjustment" packages promoted and justified by the Bretton Woods institutions in many other African countries. However, the exact content of the unfolding reform process is far from being a settled issue. And, it will not be at least until the country is technically implementing adjustment programmes supported by the IMF and the World Bank or both which at the moment is not yet the case. There is also the uncertain status of urban land and housing markets in the reform package within the 2-3 year span of standard adjustment programmes. As the Government's change of heart on exchange rate policy from what it was in November 1991 (TGE, 1991) may well suggest, there is a chance of a shift of policy emphasis in this regard also. Conversely, policy reversals mid-way in the course of the reform programme cannot be ruled out should "the going gets tough", unless measures are based on a firm consensus within the Government as well as outside of it.

There is not yet a convincing evidence of such consensus. There were signs of government reluctance to act on the exchange rate only a few months before devaluation of the birr. A symposium of Ethiopian economists had failed to reach a consensus on the same issue earlier in January (IAG, 1992). And the signals that come from the Government on the question of domestic price decontrol are still at best confusingly mixed. Finally, there is the November 1991 declaration of Transitional Economic Policy which does not sit well with the current mood for "Structural Adjustment" with its shifting of the emphasis away from relative price realignment, market deregulation and stabilisation to institutional reform as an end in itself.

The next section of the paper examines the structure of the Ethiopian economic crisis in terms of the linkages between macro-economic imbalances, market imperfections, trends in growth variables and the role played by the policy framework and civil war in generating the crisis. The crisis poses the simultaneous policy tasks of macro-economic stabilization, reversal of dislocations in infrastructure and realignment of relative prices to create an incentives structure conducive to a better growth performance than has been the case hitherto. In the third section, the role of individual policy measures in relation to these tasks is examined.

2. STRUCTURE OF THE CRISIS

The current state of the Ethiopian economy should be characterised as one of crisis for two reasons. First, the macro-economic imbalances that have been building up over the past nearly two decades are not sustainable any more except through a large injection of external resources which simply will not take place at least in the short term. Secondly, the trend in macro-economic imbalances has been twinned to a similar trend of growth in poverty, unemployment and loss of productive capacity. This too is already unsustainable since it was one of the major inputs into the civil war that brought down what was only less than a decade ago a strong government and continues to be an immediate threat to civil order.

2.1 The Policy Framework

The crisis signifies the breakdown of the economic policy of the period between 1974 and the fall of the Derg. This was a policy in which economic growth was sought mainly through the mobilisation and allocation of resources by the central government. The institutional and legal framework of the policy was set up in the second half of the seventies in the course of which private enterprise was driven out of the modern formal sector of the economy and the infant official markets in land, labour, foreign assets and credits that had evolved during the sixties were replaced by schemes for the official rationing of the same resources and consumer goods in the context of central planning. The nationalisation of private firms in 1975 and the comfortable international reserve position of the country when the monarchy was overthrown allowed the government to finance a drastic expansion of the army and the civil service as well as substantial investment in new public enterprises in industry and agriculture up until the early eighties within the bound of the fiscal discipline

of the Haile Selassie years. However, central planning and the system of rationing prices and fragmentation of markets associated with it created an incentive structure that eventually undermined the discipline for the rest of the decade. This it did by draining funds from the public sector to private enterprise which now found a lucrative retreat in arbitrage between official rationing and the parallel market it gave rise to. The private sector could not plough back the same funds to productive investment directly or indirectly through the financial sector as long as the price structure of rationing made profit margins in arbitrage too high and legal and institutional barriers to private investment remained in force. This and technical and economic inefficiencies created by overcentralisation of management of public investment in industry and agriculture converted the public enterprise sector from a source of revenue into a financial burden to the treasury by the mid-eighties. Together with rising military expenditures this meant that the government has to resort to an increasingly extractive stance against the rural sector and abandon its traditional fiscal discipline to finance the larger share of investment in the economy.

The limits to the rate of this investment as set by productivity in traditional agriculture and the economy's import capacity were however reached towards the late eighties. As a result, the rate of investment consistently fell relative to growth of the non-agricultural labour force leading to a fast rise in urban unemployment and poverty on the one hand and decline in rural food security on the other.

2.2 Macro-economic Imbalances

Many would consider the economic downturn associated with the 1973 oil shock and the drought in the North as one of the factors that contributed to Haile Selassie's downfall. However, after the economic trends that were to set in the late seventies and continued right to the present, the decade leading up to the 1974 political upheaval simply turns out to be the "golden age" in Ethiopia's recent economic history. Between 1965 and 1973, per capita real GDP adjusted for changes in international price level differentials grew by 1.1 per cent per annum which was much higher than the average for low-income sub-Saharan Africa although it was a third of the figure for all low-income countries. This reflected a domestic savings performance which again was much lower than that of most other low-income countries but nearly as high as of the average non-oil producing countries of sub-Saharan Africa and financed more than 90 per cent of capital formation during the period. The fiscal deficit was well under 4 per cent of GDP of which less than 10 per cent was financed by domestic bank borrowing (Eshetu and Mekonnen, 1992) at a time when the deficit ratio was in the range of 4-8 per cent in most sub-Saharan Africa countries (World Bank, 1989). This was consistent with the rate of monetary growth and inflation being lower than average figures for the continent (World Bank, 1989). The low resource balance ratio of under 2 per cent was a result of faster growth of imports and exports, and coupled with debt service burden of under 12 per cent of exports, apparently induced a flow of external capital at a rate exceeded by only eight of the other 31 low-income sub-Saharan African countries and put the country in an inviable international reserve position of an import cover of more than a year till the second half of the seventies.

The evolution of this state of relative macro-economic stability into today's scenario of imbalances once the nationalisation programme of the Derg was completed and the institutional set-up of central economic management was put in place, all by 1978. The new policy framework practically drove out private enterprises from the investment process and the share of private investment in total capital formation fell from nearly two-third in 1975 falling to less than 15 per cent by 1989. Private savings fell roughly at the same rate, which public sector savings as a combined balance of the central government and public enterprises failed to make up for. The domestic saving ratio as a result fell from nearly 14 per cent of GDP in 1973/74 to an average of 7 per cent during 1975-1977 and further to 3 to 5 per cent in the late eighties. The rate of investment also fell in the second half of the seventies from what it was in the second half of the sixties and the early seventies although it picked up to the average of 14-15 per cent in the eighties.

This meant a rigidly widening resource gap which reached an average of 11 per cent of GDP in the late eighties from an average of 2 per cent in the mid-seventies which reflected high rate of growth in the import bill while export earnings remained more or less at the same level relative to GDP as they were in the sixties. Net external borrowing covered 45 to 65 per cent of the gap and most of the rest was accounted for by grants and the depletion of the international reserves of the early seventies to a level where import cover was typically less than a month. The price of this was that external debt grew to a point where the debt service to export ratio is more than 90 per cent today.

The resource gap situation was faithfully reflected by the trend in the budget that should be expected given that the institutional structure of the economy was such that investment was concentrated in the public sector which converted the budget into the most important channel between savings and investment. The nationalisation programme of the mid-seventies and the rapid expansion of the civil services and the army during the following decade rapidly increased the share of government revenue in GDP to well under 15 per cent in the early seventies to nearly 30 per cent by the end of the eighties by bringing in capital charges and the residual surplus of public enterprises as the major source of non-tax revenue and by expanding the effective income tax base. However, growth on the expenditure side was even faster as a result of which the fiscal deficit grew from below 6 per cent of the GDP in 1974/75 to nearly 14 per cent by 1990.

The trend in budgetary deficits produced one of increase in broad money at an average rate of growth of 10-15 per cent per annum during the eighties (World Bank, 1990). The rate of monetary growth is not much higher than that of the second half of the sixties or the early seventies when the fiscal deficit financed by bank borrowing was much less. However, the rate of growth in real output in the eighties was significantly lower and the observed monetary expansion should have produced higher rates of inflation than the 4-6 per cent per annum figure estimated on the basis of the Addis Ababa consumer price index.

This phenomenon can be interpreted in a number of alternative ways (Collier and Gunning, 1992). The most plausible interpretation seems to be that the rise in the ratio of broad money (M2) to GDP that has accompanied the fiscal deficits represented a fall in the velocity of the circulation of money as official rationing became increasingly stochastic and

consumer uncertainty about the availability of goods increased because of disruptions in supply associated with the war, occurrences of drought and official foreign exchange shortages. On this interpretation the magnitude of the budget deficit is consistent with a low inflation rate but is nonetheless an imbalance with a serious policy implication. This is because cumulated deficits immediately translate into monetary overhang in the context of policy liberalisation. If domestic prices are decontrolled and official rationing is abandoned which reduces consumer uncertainty about supply and leads to a regime of market clearing, high money balances will create a state of high inflation rates in the absence of drastic cuts in the budget deficit or its monetary financing.

2.3 Growth Performance and Rural-Urban Relations

Budgetary deficits and the build-up in the external debts are often justified as a necessary price that has to be paid for inducing a state of growth through a programme of public investment and regulation of activities by the state that is intended to change the inter-industry structure of the economy and expand its infrastructure as a necessary condition for sustained growth. This has been the general approach in what are referred to the "inflationary" strategies of development in the sixties and seventies in Africa and most of Latin America as has been the case in Ethiopia. However, the record of the experiment in the socialist variety of the same strategy in Ethiopia during the last 18 years is that, while government policies managed to generate internal and external macro-economic imbalances comparable to most countries on the continent, they failed to induce a state of growth that was either steady or of an acceptable rate. Indeed, the period registered an average growth rate in real GDP of 1.2 per cent (Eshetu and Mekonnen, 1992) against a rate of growth in population of 2.8 to 3.2 per cent with relatively little change in the industrial composition of produce. The result is that per capita real income today stands at 54 per cent of the figure for low-income sub-Saharan African countries and 45 per cent of the average for all low-income countries.

The distribution of this trend in poverty between social groups and sectors of the economy and the implication of macro-economic imbalances on the same has been asymmetric. The most fundamental distinction that should be made in this connection is, probably between the urban and rural sectors of the economy. This is first because options in policy reform are defined as instruments for reforming the pattern of allocation of resources between the public sector and private enterprise, the agricultural sector and non-agricultural production, domestic absorption of imports and production of tradeables and the traditional subsistence economy and the relatively modern monetary sector of wage employment. Each of these either coincides with or is a sub-system of the policies of allocation of resources between the urban economy and the rural economy. Public sector spending accounts for over 40 per cent of the total employment in the urban economy but less than 1 per cent of that within the countryside. At least 75 per cent of the non-agricultural GDP and employment is urban. Eighty per cent of modern wage employment in industry or the service sector is also urban-based. And smallholder traditional agriculture produces between 80 and 90 per cent of the country's export earnings while the same proportion of imports are of urban origin. Secondly, the urban sector in Ethiopian society is the medium of concentration of economic and political power as a result of which

economic policy and its reform have always been and will be based on urban political constituencies and will be aimed at urban growth as an end for which policies towards the rural economy serve as a means.

On this perspective, the development strategy of the Derg years could be characterised as one intended to promote urban growth through import-substituting industrialization mainly financed by the transfer of funds from the countryside while until the urban economy attained a state of self-financed growth. The strategy has two aspects, namely: (1) the implicit taxation of smallholder agriculture through the procurement and pricing scheme of public marketing agencies; and (2) the allocation of the surplus extracted through a system of official rationing of imports, credits, urban land and skilled manpower within the public sector of the urban economy.

The first aspect initially succeeded in increasing the supply of food, raw materials and agricultural exportables and the corresponding implicit flow of funds but the increase in all cases failed to keep pace with the growth of the urban population. This was because the same success kept down on-farm investment since it was a disincentive to production for markets and depressed rural disposable income. At the same time, the second element of the strategy undermined the capacity of the urban sector to finance its growth by suppressing private investment and depressing the rate of return in public enterprises. It also had the effect of draining the investible surplus generated by public enterprises in the form of rents for a rapidly expanding private business of arbitrage between official rationing and the markets - rent only a fraction of which could find its way to public investment through banks as long as trading margins in parallel markets many times exceeded returns on financial assets. It was efforts to make up for the resulting shortfall in national savings in relation to the minimum rate of investment required for significant easing of the unemployment problem which led to macro-economic imbalances.

Despite these efforts urban open unemployment grew at ever higher rates throughout the eighties. Domestic gross fixed investment per capita of the urban labour force at 1980/81 prices continuously fell from Birr 950 in 1984 to Birr 613 in 1989 while domestic savings per capita of the urban labour force fell even faster from Birr 318 to less than Birr 100. On the other side of the resource gap, the purchasing power of export earnings per capita of the urban labour force at 1981 prices currently stands at less than 50 per cent of what it was in 1984 while per capita imports have fallen over the same period at the rates of 45 per cent and 63 per cent for total imports and imports of capital goods, respectively.

There are no reliable estimates of the resulting increase in unemployment. However, according to estimates of the Ministry of Labour and Social Affairs, the urban unemployment rate for the 15-29 age group grew from 18 per cent in 1984 to 53.7 per cent in 1990. The total unemployment figure of 494,344 in 1990 for the age group is 23 per cent of the total labour force (MLSA, 1990). A projection of the trend suggests a total unemployment figure of 524,449 for 1992 which, together with the figure for demobilised soldier puts the number of the unemployed to at least 800,000 or 40 per cent of the work-force of the economy.

Coupled with the erosion of real incomes of public sector employees through inflation and the traditional family-based redistribution of income to the unemployed, this trend in unemployment has translated into a steep rise in poverty not only among the unemployed but also among those with relatively well-paying jobs or businesses. Recent estimates put 60 per cent of the urban population under the poverty line (Mekonnen, 1992).

The rural counterpart of the growth in unemployment and poverty in the urban economy has been the periodic occurrence of famine in a larger and larger part of the countryside and an accelerating process of environmental degradation and the consequent decline in farm yields and food security in relatively well-off areas. The estimates of the percentage of the food insecure range between 20 and 60 per cent of the total rural population (Mekonnen, 1992).

The recurrence of drought, war and population pressure are no doubt the more immediate causes of the agrarian crisis. However, the effect of adverse climatic changes and population pressure on rural growth would have been far less than observed over the past twenty years were it not for the extremely "extractive" stance of development policy towards rural producers. The taxation of rural producers implicit in the government procurement schemes of food grain and exportables and the increasing overvaluation of the birr was far greater than the revenue raised through agricultural taxes. An admittedly rough calculation for the 1986/87 fiscal year, for instance, suggests that the tax implicit in the food grain procurement scheme of the Agricultural Marketing Corporation (AMC) is in the order of Birr 300 million while the corresponding tax through the procurement scheme of the Coffee Marketing Corporation (CMC) and the overvaluation of the Birr in relation to exports was in the neighbourhood of Birr 600 million. The Birr 1,142 million of resource extraction aimed at when the Birr 242 million of explicit agricultural tax revenue is added to these is more than 40 per cent of the government's ordinary revenue and 61 per cent of the net output of non-agricultural commodity production. Less than a tenth of this was reinvested in services or development projects in smallholder agriculture.

2.4 The Effects of War and Peace

The performance of the economy would no doubt have been much better in the 1980s than it actually was were it not for the drain on the public budget that the financing of the war in the North was. Fighting also directly disrupted economic activities and destroyed infrastructure in what amounted to be a fifth of the country. At least 50 per cent of the central government's recurrent spending was believed to have been related to defense. This points to the possibility of a significant "peace dividend" from the end of the war. However, the significant reduction in the military spending seems to have been more than offset by the collapse of tax revenue due to the breakdown of the administrative machinery in much of the country on the aftermath of the fall of the Derg.

Another legacy of the war is the demobilisation of about 350,000 service men of the former Ethiopian army and the deportation of an estimated 70,000 people from Eritrea to the rest of the country, which has put a tremendous pressure on the urban labour market and informal sector activities. This seems to have been reinforced by the migration of a large

number of people to major urban centres from parts of the South where there was sustained breakdown of civil order long after the fall of the Derg.

3. POLICY REFORM, ADJUSTMENT AND REHABILITATION

The profile of the economic crisis in Ethiopia as just outlined suggests three objectives for a policy reform programme for overcoming it. The first two of these easily fall under the conventional jargon in development policy analysis as macro-economic stabilisation and structural adjustment. The third is the objective of rehabilitation. Structural adjustment in the current Ethiopian context consists in the ultimate establishment of a market-determined relative price structure that should enable the economy to reverse the current secular trend of growth in poverty and unemployment by responding better with the shocks the economy has been subject to in the form of recurrence of drought and civil strife. It is the means for attaining long-term objectives of increasing savings and returns to investment through the industrialisation and formalisation of private businesses, the rationalisation of public sector investment and greater investment in improved agricultural practices, rural infrastructure and environmental rehabilitation. Structural adjustment must be an immediate objective of policy reform since the only possible source of growth in the economy at the moment is the efficiency gain from the micro-economic reforms it involves. Given the current level and distribution of consumption it is impossible for the aggregate saving ratio to significantly increase in the short term. It is also unlikely that external financing will be high enough for the rate of investment to be much higher than it has been for recent years.

Macro-economic stabilisation as a policy problem in Ethiopia at the moment arises essentially from this urgency of structural adjustment. The key stabilisation problem is the danger of high rates of inflation that the monetary overhang of the budgetary deficits of the last two decades will almost inevitably generate as soon as domestic markets are deregulated. The only way of eliminating this danger is a drastic reduction in money balances as well as the fiscal deficit or its degree of monetisation.

We use the term rehabilitation to refer to areas of concern to public policy that stem from the fact that structural adjustment and stabilisation are taking place in the unusual context of transition from a long-drawn out state of civil war to a relative peaceful situation on the one hand and the more or less permanent threat of drought-induced famine on the other.

Rehabilitation as policy objective corresponds to a need to implement programmes for the prevention of famine, the re-integration of victims of drought or war into normal economic life and public investment in the restoration of economic infrastructure destroyed or decaying as a direct physical outcome of the civil war or as a consequence of old policy priorities.

Adjustment or not, this is an objective that public policy cannot afford to ignore even temporarily. However, the view that rehabilitation should take priority over adjustment programmes in sequencing simply underestimates the value of micro-economic policy reform to the success of rehabilitation programmes and the financing needs of the same programmes. The magnitude of investment that the programme requires is such that it cannot be realised without a fundamental restructuring of public investment that can only be done in the context of a full-fledged adjustment programme.

The measures on the current policy reform agenda can broadly be categorised as follows: legal reform, exchange rate reform, public enterprise reform, domestic price decontrol, financial reform and privatisation each of which we shall consider in relation to the three objectives on the agenda.

Legal Reform

Included in this category are legislative measures for the removal of barriers to private investment in urban industry and commercial agriculture in the form of legal restriction on lines and scales of investment as well as the provisions of the existing employment code. Both are universally recognised as the most obvious deterrent to the industrialisation and formalisation of private enterprise. The relaxation of restrictions on investment options are the liberalisation of the labour market and also necessary conditions for a public enterprise reform programme. However, it seems to have been less obvious to many that private businesses would not be attracted to productive ventures regardless of how liberal the labour market or the investment code are as long as the current relative price structure makes trading margins far higher than returns in investment in industry or farming. A successful public enterprise reform would not be possible either without the removal of price distortions.

Exchange Rate Adjustment

The key to the current distortion of the structure of relative prices has been the official exchange rate of the birr. To the extent that foreign exchange is rationed only to enterprises within the public sector, the overvalued rate amounted to an accrual foreign exchange rate to enterprises favored by the rationing scheme. However, the same rent was transferred to traders arbitraging between the ex-factory rationing and the parallel markets through which output reached final consumers. Consumer prices in parallel markets reflected the parallel exchange rate while ex-factory rationing prices embodied the official rate. The more than 300 per cent premium on foreign exchange in the parallel markets implies a trading margin unbeatable by returns to the most profitable of industrial ventures.

The overvaluation of the birr has also been an important instrument of the implicit taxation of the rural sector as the main source of exports of the economy. Here too the tax accrued in the first instance as rent to the public sector but only to be transferred to traders via the official ration of the foreign exchange earned to manufacturing firms. The 70 per

cent or so rate of taxation of farmers involved in this could only be a powerful disincentive to production for exports at the same time as it reduced producer disposable incomes to the point that made on-farm investment impossible.

The immediate devaluation of the birr as the first step towards the allocation of foreign exchange at a market determined rate is thus the key policy instrument to greater private investment in industry, financial performance and efficiency of public enterprises and higher investment in the production of agricultural exports. Some preliminary estimates suggest that the same measure is likely to improve the budget and thus have a stabilisation function as well. And contrary to what is often argued, the measure in and of itself cannot be inflationary. First because consumer prices, except in the case of goods directly rationed to consumers, already reflect the parallel market rate towards which devaluation moves the official rate. Devaluation does result in a one-shot rise in the consumer price levels in as far as it directly raises consumer rationing prices which of course, should not be confused with a state of inflation. Given the relatively small share of directly rationed goods in the consumer basket, the rise in the consumer price index on this account should be small.

Domestic Price Decontrol and Public Enterprise Reform

Ex-factory price decontrols are one of the two elements of this aspect of policy reform. Together with exchange rate adjustment ex-factory price decontrol constitutes the first step in the harmonisation of the financial and economic performances of public enterprises. Without such harmonisation it would not be possible to isolate public enterprises that will be viable enough to be packaged into a reformed public enterprises sector from that cannot survive the removal of existing price distortions. Public enterprise reform itself is necessary because the size of the sector at the moment is such that the potential efficiency gained from exchange rate reform and price decontrols would be largely lost unless the sector is broken down into units of financial and managerial autonomy.

The second aspect of the policy of domestic price decontrol relates to the liberalisation of agricultural producer pricing which has already taken place as far as food grains are concerned and has yet to be extended to coffee as an export crop. The differences between decontrol of agricultural producer prices and that of ex-factory prices is that the danger of formation of private cartels is greater in the case of agricultural markets than in urban markets for manufactured consumer items. The ultimate gain of decontrol should be the greater production of food as well as export crops that higher producer prices are expected to induce. However, private cartels could keep producer prices too low in spite of higher consumer prices for its transmission to take place. It is therefore absolutely essential that agricultural price decontrol should be accompanied by an arrangement for public marketing agencies defending producer shares in consumer prices and ensuring stability and competition in markets.

Privatisation

Privatisation is here understood in a much broader sense than the selling off of public enterprises as a means of industrial reorganisation. However, privatisation in the narrower sense strictly belongs outside of the scope of structural adjustment in the present Ethiopian context. This is because privatisation as an instrument of industrial reform requires a realignment of domestic relative prices with world prices which could only be possible with more or less a market determination of the official exchange rate and a successful trade liberalisation programme. By the time this has been achieved the structural adjustment phase of policy reform in Ethiopia would strictly have ended. Attempts at privatisation without trade liberalisation on the other hand would amount to the selling of the protection enjoyed by public enterprises to private interests which may not be justified on economic grounds. It would not also be technically feasible since the valuation of assets of the enterprises to be privatised will not be easy to determine as long as there is serious price distortion.

However, privatisation understood in the broader sense to be inclusive of the establishment of a market in urban space and housing is an important input into macro-economic stabilisation and structural adjustment on the one hand and financing of rehabilitation on the other.

Once the basis for arbitrage rent in the market for imports and import-intensive domestic goods has been eliminated and legal barriers to private entry into industry has been removed, the most immediate constraint to increase private investment will be the administrative rationing of urban land, which should be removed by introducing competitive leasing of public property or its open marketing.

The latter appears to be the less burdensome and costly of the two options from the administration point of view. It also has a stabilisation dimension. As already pointed out, the most important stabilisation problem is avoiding the danger of inflation due to the monetary overhang of cumulated budgetary deficits in the past. This can be done only through a drastic reduction in current deficits or in their non-monetary component. The financing needs of rehabilitation programmes are simply too large and urgent for the first of these alternatives to be feasible politically or rational economically. And external financing is not likely to be available in sufficient quantities in this context. That leaves the selective selling of government-owned housing as probably the only feasible option. The financing of public investment in rehabilitation is analogous to the bond financing of deficits in developed economies.

Financial Reform

A major element of inefficiency in public investment is the practice of subsidising government-owned enterprises through easy access to bank credit at administrative rates of interest that are much lower than the market would dictate under a regime of financial intermediation. And lack of domestic financing will be a constraint at some stage in the growth of private investment. A successful industrial reorganisation programme therefore

requires a programme for financial reform the first step of which is the tightening of the public budget in order to provide greater access to bank credit to private businesses. This should be followed by a revision of current interest rates as a move towards a market-determined rates structure.

Adjustment Measures and Rehabilitation

We have already identified three elements of the rehabilitation objective of public policy at the moment one of which includes provision for famine prevention and rehabilitation of demobilised soldiers and victims of drought and civil strife. Structural adjustment is an essential framework for successful famine prevention in as far as it promotes greater integration of markets in food grain, livestock and rural labour over time and in space which provides households in drought-prone areas to improve the distribution of their consumption between the better and the leaner years of climatic cycles. And the only viable means of the rehabilitation of demobilised soldiers and other victims of social dislocation seems to be a short-term public works programme for the development of infrastructure as a phase of transition until investment in industry recovers and the urban labour market tightens. The financing of this exercise on a sufficient scale may not be possible without privatisation of government-owned housing.

4. CONCLUDING REMARKS

By way of summing up, we may note that the economics of structural adjustment can easily put in a structuralist perspective in the Ethiopian context. This makes it much more alive to the peculiarities of the problems of the country than is generally supposed. The issue today should not be no longer are adjustment programmes needed. Nor it is that whether there is a trade-off relationship between such programmes and the task of rehabilitation. The relationship between stabilisation and structural adjustment on the hand and rehabilitation on the other is really one of complementarity than competition for resources or urgency. And since adjustment measures cannot be postponed any more, the basic policy problem is really as to how individual reform measures should be packaged into a unified programme that simultaneously tackles the problems of macro-economic disequilibrium, fundamental relative price misalignments, rapid deterioration of infrastructure and massive social dislocation.

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