

BOOK REVIEW

Berhanu Abegaz (ed.), *Essays on Ethiopian Economic Development*. Aldershot: Avebury, 1994. xv+341pp. \$45 hardback.

This book is an important contribution to study of the Ethiopian economy. It contains seven essays, three of them written by the editor. Three of the chapters deal with industrialization, one with agriculture, two with economy-wide issues, and one chapter attempts to set the articles in a wider global and African context. Written exclusively by Ethiopians (living abroad), it has the advantage of being up-to-date in the use of current literature although it lacks connection to the concrete situation and unpublished works in Ethiopia.

The first chapter, by Berhanu Abegaz, discusses 'the challenge of arrested development' and attempts to place Ethiopian development problems within the broader framework of African crisis. In this attempt, he notes two contending views: the ECA view which says the problems are structural and the Bank/Fund view which basically says that the problem is one of policy. However, he not only omits a third view, associated with Lawrence (1986), Harris (1986), Onimode (1988), Sutchliffe (1986), etc., which states that the problem is systemic, and fails to take advantage of this insight, but also fails to discuss the root causes of the African economic crisis (why structural/policy problems do exist). The latter would have given an important insight towards a possible solution. However, he rightly poses the interesting question of to what extent multilateral 'donors' can shape political process and the ECA analysts shy away from the logical implication of their analysis.

The second chapter by Berhanu Nega deals with economy wide issues by constructing a Kalecki-FitzGerald inspired macroeconomic model. The author notes that both his theoretical and empirical analysis suggest the difficulty of rapid accumulation (and hence growth) in what he calls the 'Open Peripheral (dependent) Socialist Economy'. Closer examination of the assumptions and the structure of the model reveals that the conclusions are not warranted. For instance, the author assumes, a) that agricultural output market is not flexi-price based, and b) that investment (not output) adjusts to the foreign exchange constraint. These assumptions not only diverge from major structuralist assumption but also do not tally with the stylized facts in Ethiopia. As to the first assumption, peasants had been marketing a good portion of their output in the flexi-price market (the marketing board procurement was only a part of it). The second assumption is also unrealistic as most industries were extremely import dependent and import compression (with its adverse effect on capacity utilization and output) was the rule. Another major limitation of the model relates to the center of accumulation. Reading this chapter one would expect the state to be the main center of accumulation. The 'socialist' state of Ethiopia was doing that although the mode of utilization had problems. That analysis is missing in this study, and in I believe this is a major shortcoming of any analysis which claims to depict a 'socialist' economy.

Berhanu Abegaz, Roman Habtu and Mulatu Wubneh discuss the industrial sector in three chapter of the book. Each starts by giving an excellent, concise survey of the theoretical literature. Berhanu discusses the different stages of manufacturing and attempts to relate this to Ethiopia. His analysis culminates by suggesting an agro-industry based industrialization carried by a partnership of the state and the private sector. There are two fundamental problems with his analysis. First, he tacitly accepts the *status quo*, that is, he doesn't question the disarticulation of the domestic production and consumption structure and attempt to see the stages of industrialization as it is -from the nature of the urban pattern of consumption. This fundamental neglect is reflected by lack of discussion about the industry-agriculture linkage, which is central for any industrialization analysis in Ethiopia. A related major problem in his discussion of stages of industrialization is lack of a dynamic mechanism that governs the industrialization process from the beginning to the end (this reminds one of Rostow's stages of development and its Marxian variant). Lack of such dynamic linkage is reflected in his empirical work.

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Roman Habtu (chapter 5) discusses the situation of small-scale industries. By analyzing the current situation she argues for an industrial strategy which will be based on the idea of 'industrial district'. As is the case with the other articles (chapter 4, for instance) the industrial district concept is hardly connected with the

dynamics of agriculture. For example, she suggests, perhaps rightly, sub-contracting as an important option for small-scale industries. This inevitably assumes the existence of large-scale industries *ex-ante*. However, the decision about the latter cannot be envisaged independent of a general macro-analysis with particular attention to the industry-agricultural link. If one starts from this rather broader issue, her micro suggestion may not be substantive (for example, if small rural based industrialization is the policy regime at the outset). This failure to integrate the micro analysis with the macro framework and explore their dynamic linkage leads her to propose contradictory policies. For instance (p. 246) she suggests preferential treatment for small-scale industries in financial policy. However, she earlier proposed that the small-scale industries be engaged in sub-contracting. The latter implies having large-scale industries which themselves need preferential treatment.

Both Berhanu's and Roman's article ignore the cultivation of domestic technological capability (say through horizontal linkage and linkage to technology centers -the creative attempt by Ghanaians to create a link between universities and productive firms is a case in point). As a result, technology transfer, which is central in industrialization, is envisaged only through foreign exchange generation (which is not analyzed anyway). The main point one should note from the readings on industry is that the old agriculture versus industry debate is still with us although we attempt to diffuse it by splitting the question into its constituent parts. Thus, in order to say something about the industrial sector as well as to discuss the details of any policy prescription regarding industrialization, we need to logically and empirically articulate the industry versus agriculture question first.

Mulatu Wubneh (chapter 6) discusses the productivity of the manufacturing sector from 1960-88. Mulatu gives an excellent picture of the history of manufacturing. He also includes interesting time series data, which is unusual in most published works. He makes an empirical analysis of productivity by employing Cobb-Douglas (CD) and translog functional forms. However, a major problem in his analysis is that he tries to study productivity over a period of time, which is a dynamic phenomena, using a static framework (CD) exclusively designed for efficiency analysis. Following his methodology one might obtain a snapshot picture of the (average) points in the two periods of analysis but not the process in each of the periods-which I think is fundamental for studying structures (the variation in institutional framework in the two periods is a case in point).

Mesfin Mirotschie's article (chapter 4) is the only article about the agriculture sector. Mesfin attempts to investigate the technical efficiency of agriculture using Cobb-Douglas and translog functions. He concludes that the private farm sector is efficient in the allocation of resources while that of state farm is not. The latter is attributed to poor policy. However, there are some problems with his study. First, the title is very wide, yet low land areas and pastoral farmers are completely left out of the analysis. Second the price used for the analysis of the private farm sector is not a good proxy. It would have been best reflected by taking the weighted average of marketing board's (AMC) and parallel market price and its regional variation.

One of the major problems of Mesfin's model is the use of the production functions which assume substitution among the arguments. Such functions suit situations where the search for efficiency is done under a context of competitive market. This situation does not fit the agricultural sector in Ethiopia and makes one wonder whether such a search for efficiency is worth pursuing. Instead, a search for a dynamic process which changes the structure of the agricultural sector, even if that does mean inefficiency in the short run, might be relevant. This, I believe, is an important point in analyzing the agricultural policy in Ethiopia and is not considered by Mesfin. As a result, some of his results stand in striking contrast to studies carried out by researchers working in Ethiopia. Such perverse results are partly the consequence of the restrictive nature of the functional forms adopted.

A common problem in most of the chapters is that some of the figures are not correctly cited. Sometimes evidence is incorrectly interpreted. Moreover, in some of the articles the econometric analysis is very weak and lacks formal diagnostic testing, especially of spurious regression in the time series studies.

The final chapter, by Berhanu Abegaz, attempts to summarize the current reform of the Ethiopian government by relating it to the literature on economic reforms. In discussing the role of the state he raises