Employment and Unemployment in Ethiopia

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THE LAST FEW YEARS have witnessed a quite extraordinary change of attitude on the part of development economists to the growth problems of less developed countries (LDCs). In the 1950s and 1960s, it was common to view the existence of rural underemployment in these countries as a potential reservoir for economic growth; the problem was to provide labour to support the growth of the modern, urban sector by out-migration from the agricultural sector without loss of agricultural output. Such concerns, however, have suddenly given way to a preoccupation with urban unemployment; the older view has in fact been rendered obsolete both by the rapid growth of population in developing countries in recent years and by the labour-displacing character of growth in the modern, urban sector. The question is no longer that of drawing labour out of agriculture but rather that of finding a way to keep it in agriculture; the reduction of rural underemployment by agricultural development rather than by the development of manufacturing in urban centres has become a prime policy objective in most developing countries.

A simple label for the older view is " an import-substitution policy centred on the modern, manufacturing sector ". To support this policy, interest rates were kept low, the exchange rate was deliberately over-

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This is a summary of the report of the Exploratory Employment Policy Mission to the Imperial Ethiopian Government, organised by the ILO and financed by the United Nations Development Programme. The mission, which visited Ethiopia between November 1972 and February 1973, was composed of Mr. D. Metcalf, Lecturer in Economics, London School of Economics; Mr. S. Nigam, Regional Manpower Adviser for Africa, ILO; Mr. L. Richter, Employment Planning and Promotion Department, ILO; Mr. M. Urrutia, Head of Technical Services, Bank of the Republic of Colombia; and the author, who acted as head of the mission. The mission's report was subsequently circulated to all the government agencies concerned, as well as to the national employers' and workers' organisations. A national workshop was then organised in July 1973 at which the mission's findings and recommendations were fully and systematically discussed, and the national authorities undertook to give due consideration both to the recommendations of the mission and to the conclusions of the workshop in preparing the Fourth Five-Year Plan. The report will be published shortly under the same title as that of the present article.

valued to encourage capital imports, while a variety of investment grants and tax exemptions were used to lower the cost of capital still further. In consequence, the growth of the modern, import-substituting sector proved to be capital-intensive and labour-displacing. Many developing countries in the 1960s actually suffered a decline in the absolute volume of employment in the modern sector and virtually all such countries in Africa suffered a decline in the proportion of the labour force employed in manufacturing. The new interest in agricultural development as the key to economic growth is thus seen as a reaction to the disappointing employment record of import-substitution growth policies.[1]

It has come to be increasingly realised that a straightforward growth-increasing policy to reduce unemployment, concentrated on modern manufacturing, is likely to be self-defeating because *(a)* fast growth in industrial output tends to be associated with fast growth in labour productivity, as a result of which employment will grow at a much lower rate than output; *(b)* an increase in employment opportunities causes " discouraged workers "—those who have ceased to look for work—once again to seek employment, thus increasing the size of the labour force and, in consequence, the volume of unemployment growth as fast as employment itself is increasing; and *(c)* improved chances of finding employment in towns cause more people to migrate out of family farming, for which reason open unemployment once again tends to increase as fast as employment.

These general remarks apply as much to Ethiopia as to most other LDCs in sub-Saharan Africa. Generally speaking, Ethiopia has pursued an import-substitution growth strategy ever since 1950 or thereabouts, with all that that implies in artificially cheapened capital and overvalued exchange rates. Although the Third Plan marked a significant new concern for agricultural development, agriculture had until then been generally neglected. Urban unemployment in Ethiopia is not yet a really serious problem, at least in comparison to the rest of Tropical Africa. But at current rates of population growth, the pressures on the available supply of land are building up; rural underemployment is beginning to reach levels at which labour will be pushed into the towns whatever happens with respect to urban employment. There is every reason to think, moreover, that significant improvements in the urban employment situation would soon pull more agricultural labour into the towns. Thus, urban unemployment may be expected to increase steadily in the next ten years unless something is done to keep labour in the countryside. A long-term employment strategy in Ethiopia, therefore, must be one which places agricultural development at its centre. Most of the potentialities of an import-substitution policy are now exhausted and future economic

[1] For an authoritative account of the " new view ", see I. Little, T. Scitovsky and M. Scott: *Industry and trade in some developing countries: a comparative study* (London, New York and Toronto, Oxford University Press, for the OECD Development Centre, 1970).

growth in Ethiopia must be export-led, these exports being of course largely but certainly not only agricultural exports.

A policy which instead focuses on urban unemployment and the " school leaver problem " is of course superficially more appealing: one can actually see unemployed youngsters standing about in city streets, whereas one cannot easily observe work-sharing in rural family units. Nevertheless, to attack urban unemployment head-on is both short-sighted and self-defeating. Furthermore, it is a policy which will do little to alleviate poverty in Ethiopia and which will almost certainly worsen the distribution of income: unemployed school leavers in cities are typically from well-to-do families, or at any rate from families earning much more than average incomes per head. The right approach, therefore, is to put the emphasis on export-led agricultural growth. This is not a plea for eliminating the small manufacturing sector of Ethiopia. It is a plea for a change of emphasis in future growth strategies. As a matter of fact, some Ethiopian manufacturing could now survive in world markets without protective tariffs and an export-led growth policy would include the promotion of certain manufacturing exports. Nevertheless, the main thrust of the development policies must concentrate on agriculture. Provided this approach is adopted as a long-term employment strategy, it is not difficult to think of short-term policies which would tackle the school leaver problem over the next two or three years.

As for educated unemployment in general, meaning unemployed youths with at least some secondary education, the only effective *long-term* remedy is to somehow bring about a decline in the rate of growth of enrolments in secondary and higher education, and to shift resources for a long time to come in favour of primary and non-formal education.[1] Fortunately, Ethiopia seems about to embark on such a shift of educational policy. Here too, short-run policies present few difficulties once the basic problem is attacked at its source.

These general remarks sum up the mission's basic approach to the employment problems of Ethiopia. The purpose of the next four sections is to provide just enough background material to make our final recommendations intelligible. We begin with a bird's-eye view of the Ethiopian economy and of the employment prospects it has to offer, take a quick look at the problem of educated and urban unemployment, then move on to consider the potentialities of agriculture for absorbing additional labour, and conclude with an assessment of the employment effects of government policy in the macroeconomic field. There follows a section devoted to the recommendations themselves, and the article ends with a look at the possibility of further co-operation in employment policy matters between the ILO and the Ethiopian authorities.

[1] For a description of what constitutes " non-formal " or " out-of-school " education, see Mark Blaug: *Education and the employment problem in developing countries* (Geneva, ILO, 1973), pp. 57-58.

Economic growth and employment prospects

In the recent past the Ethiopian economy has performed fairly well, achieving an over-all rate of growth of GDP between 1961 and 1969 of about 4.8 per cent a year. This rate of growth, however, is less than that of sub-Saharan Africa as a whole. Given a rate of population growth in Ethiopia of between 2.4 and 2.6 per cent a year, the annual rate of increase of income per head has been only 2.2 to 2.4 per cent a year.

There was little urban unemployment in Ethiopia until quite recently owing largely to an extremely favourable pattern of sectoral growth. The rate of growth of the urban population, estimated at 6 per cent a year, was matched and more than matched by the high growth rate in the output of manufacturing and services: these sectors grew at 9.3 and 7.9 per cent a year respectively during 1961-69, while agricultural output grew at a rate of 2.2 per cent, slightly below the growth rate of the total population.

In the past four years, however, the growth of the Ethiopian economy has not succeeded in absorbing all new entrants into the urban labour force. Open unemployment in Ethiopian towns is now around 5 to 10 per cent of the labour force. Young workers are disproportionately represented amongst the unemployed; two-thirds of all the unemployed are under 25 years of age. Thus, the problem of unemployment of relatively well-educated workers, especially secondary school leavers, is only one aspect, albeit an important aspect, of youth unemployment.

But urban unemployment, although visible and potentially explosive, may not be as serious a problem as low incomes and stagnating output in the countryside. It must be remembered that only 8.5 per cent of Ethiopia's 24.3 million people live in urban areas; therefore, the recent growth of agricultural output at rates below the growth of population implies a progressively worsening situation for the great majority of the population, and particularly for the poorest members of society. For this reason alone, a development and employment strategy must be focused on agriculture. The growth of employment in the urban sector cannot be considered as an end in itself, but must be seen as a means of absorbing the rural underemployed who spill over into the towns.

Whatever the view taken of the current situation, however, there is every evidence that open unemployment will soon get worse in Ethiopia. A Planning Commission Office document, *The employment problem in Ethiopia* (1972), makes a series of alternative projections which hardly leave any doubt on that score. In essence, the PCO document first projects the growth of population, labour force participation rates, total output and labour productivity up to 1990 on the basis of " high " and " low " assumptions, demonstrating that open unemployment is likely to increase massively whatever assumption is adopted, with total unemployment reaching 9 per cent and urban unemployment 20 per cent by 1990. It then suggests that these rates need not actually occur because agriculture could become the residual employer for all those unable to find work elsewhere in the economy, and it discusses the agricultural development strategy that would be necessary to achieve this. In so doing it demonstrates that no conceivable intensification of production on existing cultivated land could do more than cut the 1990 general unemployment rate from the projected 9 per cent to 5 per cent; to absorb all labour force entrants over the next two decades and keep unemployment at around its 1970 rate, settlement would be needed on hitherto uncultivated land. The members of the ILO mission believe that the principal conclusions of this document are correct: to the extent that it errs, the severity of Ethiopia's future unemployment problem is understated rather than overstated. We saw our task, therefore, as being to underline and sometimes to amplify the analysis and recommendations of the PCO report. It is precisely for this reason that we did not go on to recommend a full-fledged comprehensive employment mission for Ethiopia.

Education and manpower

So much then for future prospects with regard to unemployment. We turn now to a central aspect of the employment problem now and in the future, namely educated unemployment.

During the past 15 years, remarkable strides have been made in the educational field. The average annual growth rates of enrolments in the three tiers of the educational system during 1956-71 work out to about 11, 19 and 20 per cent respectively. Age-cohort participation rates in these years increased from about 4 to 17 per cent in primary schools, and from less than half of 1 per cent to about 4 per cent in secondary schools.

Despite these achievements, the educational system continues to suffer from severe imbalances. About 93 per cent of the population is still illiterate. There is great inequity, both quantitatively and qualitatively, in the geographical distribution of educational facilities. Educational opportunity is also greatly imbalanced between males and females. Retention rates are low, being only 53 per cent in primary schools and 62 per cent in secondary schools, and the pass rate in secondary school examinations is only 18 per cent. The education system is highly formalised and academic. It is tailored to the needs of the small minority, which is urban and modern. It thus caters to the needs of an élite, the 6 out of the 100 Grade I pupils who will enter an institution of higher learning 12 years later. Little attention has so far been given to non-formal education related to employable skills.

Though, proportionally speaking, secondary education is provided to only 4.5 per cent of the relevant age cohort, the number of secondary school leavers has increased significantly in recent years. Both secondary and higher education have expanded in the last decade by about 20 per cent, while the rate of economic growth of GDP, as we have said, has been only around 5 per cent. The supply of manpower at these levels of education, and particularly at the secondary school level, has evidently outstripped demand, contributing to the present situation of educated unemployment. The employment of university graduates, whose number is relatively small, has not yet posed a major problem but if enrolments continue to expand at past rates, these too will soon be on the streets of Addis Ababa and Asmara. Even the number of graduates of higher non-university institutions, like polytechnics, now appears to exceed demand and more and more of them have recently appeared on the registers of employment exchanges.

It is against this background that the Government embarked upon a comprehensive review of the educational system, which was completed in October 1972. We must say at the outset that the Education Sector Review is one of the most thorough, competent and enlightened appraisals of an educational system ever undertaken in an African country.

We fully endorse the Review's basic strategy for the future development of education in Ethiopia. The proposals concerning a " minimum formation education " of four years for most children and a " basic formation education " of two years for adults are in the best interest of human resource development in Ethiopia and should have a favourable impact on the employment problem. But what is even more significant for the employment situation are the recommendations concerning secondary and higher education. These entail a drastic reduction in the expansion of secondary and higher education from the present annual growth rate of about 20 per cent to about 2.6 and 5 per cent respectively. The greater emphasis given to non-formal education at all levels by setting up " community practicums " and Development Centres will remove one of the glaring gaps in the present educational system and should go a long way to improve the situation with respect to educated unemployment in years to come.

If implemented, the recommendations of the Education Sector Review would make Ethiopia the first country in Africa to shift her educational effort in the direction of primary and non-formal education for all, instead of secondary and higher education for a privileged minority. Quite apart from its radical emphasis on basic and non-formal education, the manner in which this report was prepared—a series of meetings over a ten-month period leading up to the preparation of a series of sub-reports, involving both professional educators in Ethiopia and members of all the relevant Ethiopian ministries—would make it a significant document in the history of educational planning in Africa.

Agriculture and rural development

Agriculture provides a livelihood for more than 90 per cent of Ethiopia's population; it produces 93 per cent of all exports and it contributes nearly 60 per cent of GNP. As much as 75 per cent of the value of agricultural production never reaches the markets, being consumed by farmers themselves. Three-quarters of Ethiopian agriculture, therefore, is characterised by what economists call " subsistence farming ". Of the fraction which is marketed, some 35 per cent is accounted for by coffee, sugar and cotton, about 30 per cent by cereals, pulses and oil-seeds and roughly 18 per cent by livestock.

Although crops outweigh livestock in terms of sources of income, Ethiopia is said to have the largest head of livestock in Africa. This tremendous potential is at present of little economic use due to poor feeding, rampant diseases, a primitive market structure and the custom—widespread among Ethiopian farmers—of holding livestock for reasons of status instead of cash income.

Agricultural exports are an important source of foreign revenue: as we said, they constituted in 1970 about 93 per cent of total exports. Coffee had the major share with some 60 per cent, followed by oil-seeds and cakes with 10 per cent, pulses with about 9 per cent, and hides and skins with 9 per cent. The remainder of 12 per cent was composed of livestock products as well as fruit and vegetables.

We venture now on to less certain ground. All Ethiopian statistics about agrarian structure (distribution of land holdings, proportion of land cultivated, size of farms, etc.) are little more than guesstimates: they are not grounded on cadastral surveys and are therefore unreliable. But we offer some relevant data, for what they are worth.

The total land area of Ethiopia comprises 122.1 million hectares of which 11 per cent is cultivated, 53 per cent is used as pastures, 14 per cent consists of built-up areas, while the rest is accounted for by forests, water surfaces and swamps. According to sample surveys, the total population in 1970 amounted to 24.3 million people, of whom 22 million were said to live in rural areas. On certain assumptions about the size of rural families, the rural population is estimated to comprise 4.75 million households. Some 400,000 of these are estimated to be located in pastoral areas, deriving their livelihood mainly from livestock. Another 400,000 probably make a living mainly from handicraft, commercial and service activities in the rural areas, so that the total number of farm families is perhaps in the neighbourhood of 4 million. These figures indicate an average farm size of over 3 hectares of cultivated land.

A few landowners possess large tracts of land and the number of larger-scale commercial farms has been increasing in recent years. However, the overwhelming majority of Ethiopian farms are very small:

in almost every province, half of the cultivated land consists of holdings of less than 1 acre (0.4 hectares). There are also considerable regional variations in land holdings; holdings of more than 5 acres (2 hectares) are only found in four provinces: Arussi, Illubabor, Shoa and Gojjam.

It is often asserted that land holdings in Ethiopia are severely fragmented, but it is worth noting that the actual figures given in the land tenure surveys of the Ministry of Land Reform and Administration do not support this view. In nine provinces for which data were collected, not more than 10 per cent of total holdings consisted of more than six plots. This can hardly be considered excessive.

Tenure arrangements vary widely as between regions, but three major systems can be identified: *(a)* individually owned land; *(b)* communally owned land; and *(c)* Government-owned land. It is difficult to go beyond such simple statements without entering into a morass: each province has its own combination of these three systems.

About half of the farming population are tenants who farm more than half of the cultivated area of the country. Again, there are enormous regional variations in the proportion of tenancies: the maximum percentage of land rented is 67 in Kaffa Province and the minimum is 14 in Wollo Province. Security of tenure is everywhere precarious. It is uncommon for landlords to compensate tenants for improvements which they have made. Rents are mostly paid in kind in varying proportions of the crop. Cash rents are common, however, in areas producing cash crops, as for instance in the coffee-growing regions. However, rent is frequently not the only payment exacted by landlords for the use of land. Demands for " key money " at the beginning of a tenancy are reported from all provinces; likewise, it is not unusual to find cases where labour services are supplied in addition to rent payments.

Summing up, it is easy to see why there is a great deal of talk in Ethiopia of the need for land reform and why even the introduction of standard leases for tenants would constitute a dramatic change. In the meanwhile, the lack of cadastral surveys impedes all efforts at reform.

Access to markets as well as access to inputs requires a variety of services and facilities, among which a satisfactory communication system ranks high in importance. Ethiopia's road network has greatly expanded in recent years with all-weather roads now running in a north-south and east-west direction across the centre of the country. However, the number of feeder roads penetrating into the rural hinterland is very small. Thus the principal means of transport in the rural areas remains the pack-animal. Under such conditions, transport costs tend to be prohibitive for any sizeable production that has to be moved to markets. Similarly, the marketing system in rural areas is weak. Lack of storage facilities, insufficient market information and the lack of standard weights and measures are the most conspicuous barriers to agricultural expansion in the area of marketing.

In the absence of any reliable data on prevailing patterns of employment in agriculture, we must confine ourselves to certain general statements based on fragmentary information. There seems to be little, if any, open unemployment in agriculture, as defined by international standards. However, the customs and habits traditionally associated with the agricultural cycle in Ethiopia dictate certain periods of seasonal inactivity, which vary greatly, like everything else in Ethiopian agriculture, between regions. In addition to seasonal influences, there appear to be striking differences in labour requirements between crop and livestock production. Some case studies suggest that the annual labour input per hectare of crop land amounts to 436 man-hours, which is almost double the manpower requirement per hectare for livestock. Different crops also show different labour requirements. It is generally assumed that teff, maize and cotton are among the more labour-intensive crops. Barley and wheat, on the other hand, require less labour and they are also easier to mechanise. Crops like coffee, cotton and sesame have rather high seasonal labour demands.

Agricultural underemployment in terms of low productivity and income is also said to be rampant, but available information does not allow us to substantiate this view. Average income obtained from agriculture, if estimated on the basis of sector GDP and population, is about $75 per year.[1] Assuming that the average farm household comprises about five persons, this would mean a family income of some $375, or $1.75 per working day. This is a figure worth keeping in mind. Of course, it is an average and as such disguises the wide range of income differentials in farming: informed observers estimate net annual income in Gemu-Gofa Province at $150, or about $0.70 per working day!

We have already noted that the overwhelming majority of existing farm units in Ethiopia are very small: large-scale commercial farming has only recently been introduced in the country (e.g. in the Setit-Humera region and the Awash Valley) and it is estimated that at present large farms do not occupy more than 1 per cent of the total cropped area of Ethiopia. This development of large-scale farming has been undertaken not by landlords but by foreign concessions and commercially experienced traders. Their initiative has lately been followed by large and medium landowners who, in order to obtain economically sized units for mechanisation, have not hesitated to evict their tenants and to farm instead with hired labour.

Large farms are generally considered pace-makers of agricultural progress, and from the productivity point of view large-scale farming in Ethiopia may perhaps claim a more important role in agriculture in future years than it now holds. Furthermore, large farms do make a

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[1] 1 Ethiopian dollar = US$0.49 or £0.21. All references in the text are to Ethiopian dollars.

substantial net contribution to the total demand for labour in agriculture. The Setit-Humera region, to cite one example, is said to employ over 100,000 seasonal workers during the months of June to January and to need many more but to be unable to obtain them. This problem of insufficient labour to cover peak demands at harvest time might be substantially eased by the settlement of smallholders alongside of and interspersed with large farms, a development which has already made some headway in the Humera area and the Awash Valley. Unfortunately, peak seasons of the two farm types frequently coincide; when this is not the case, experience elsewhere suggests that a division of labour eventually establishes itself between the two farm types. For example, larger farms tend to help the smaller ones with mechanical ploughing and seed-bed preparation, while the small farms in turn help out the large units with labour during harvesting periods.

The salient economic characteristics of small-scale and large-scale farming can be summarised as follows. On the one hand, output per unit of land as well as labour per unit of land tends to be higher on small farms than on large farms, that is, small farms are more productive per hectare but less productive per man than large farms. Hence, small farms tend to proliferate when land is scarce and labour is abundant. Livestock production, particularly those branches requiring much labour and personal care, is more a domain of the small and medium-sized farms than of large agricultural enterprises; however, there is as yet little demand in Ethiopia for high-quality livestock production requiring the labour-intensive treatment which would favour small farms. Conversely, as long as small-scale farming communities in Ethiopia produce little beyond their own subsistence needs, there is little incentive to develop domestically produced non-farm products; that is to say, the more small-scale farming there is, the less likely the growth of local industry in rural areas.

In any case, there is no doubt that there will be a growing tendency, which has already manifested itself in some places, for farms in Ethiopia to become larger and more capital-intensive. Yet in the years immediately ahead, this process must be counteracted because the existing potential of small-scale farming in Ethiopia is still far from being realised.

Present policies in agriculture

The emphasis placed on agriculture in the Third Plan marked a sharp departure in Ethiopia's development strategy. The aim of the Third Plan was to achieve a significant increase in agricultural production, largely by the promotion of commercial farming; it was considered unlikely that the traditional small-scale farming would be able to play a substantial role in a programme of agricultural expansion. On the other hand, it was realised that at least some attempt ought to be made to encourage traditional small-scale farming, if only to raise the standard of living of the vast majority of the Ethiopian population. The latter policy objective found expression in the establishment of a number of experimental projects, embodying the concept of the " comprehensive package " in areas of proved agricultural potential.

The first such project was initiated in 1967 with Swedish assistance in the Chilalo sub-province and has been known ever since as CADU (Chilalo Agricultural Development Unit). This area comprises some 600,000 hectares and about 400,000 inhabitants. The main objectives of the project were to help small farmers to help themselves and subsequently to transfer the experience gained throughout Ethiopia. The means to achieve these objectives were mainly the provision of extension and marketing services, credit and improved seeds, fertilisers, pesticides, insecticides, cheap implements and cross-bred cattle.

Participation in the programme grew from 200 in the first year to more than 20,000 in 1972, that is, something like a quarter of the total number of farmers in the area. While the increases in farm yields as well as the general organisation and conduct of the project are impressive, the impact on agricultural employment in the area was highly ambiguous: simultaneously with CADU activities, a considerable number of tenants were evicted. Moreover, the total cost of the experiment over the planned period of eight years up to 1975 is expected to run to $18.6 million, of which $6.2 million will be borne by Ethiopia. This amount comes close to the annual capital expenditure incurred for agriculture as a whole in Ethiopia in 1970/71. The high value of the demonstration effect of CADU is fully recognised but the administrative and infrastructural " overhead " of the project appears to be far in advance of what Ethiopia could itself afford at the present time. A less lavish input into the project might have made CADU a more convincing example for the rest of the country.

Another comprehensive project similar to CADU but located further to the south is the Wollamo Agricultural Development Unit (WADU), initiated in 1970 with the assistance of the World Bank. Its major objectives are to raise the incomes of some 6,000 subsistence farmers and to establish 1,750 settlers with a total agricultural income of $425 through the provision of credit and other supporting services. This project is at present under evaluation and it therefore seems to be inappropriate to attempt an appraisal here. But in general, WADU gives the impression of a comprehensive agricultural effort that is well adapted to the potentialities and exigencies of the present agricultural situation in Ethiopia.

In addition to these better-known schemes, the Ministry of Community Development is carrying out a comprehensive development project in the Awash Valley and a further comprehensive effort is foreseen in Shoa Province with USAID support. Experience with these geographically limited but comprehensive package programmes, together with an earlier and wider effort of the FAO Fertiliser Programme concentrating on a single input, has revealed two things. First, the costs in terms of finance and skilled manpower are too high to permit duplication of the comprehensive method over wide areas. Secondly, there are clear indications that, given the necessary incentives, small-scale farmers in Ethiopia are ready to take advantage of the assistance they are offered. This has led the Government to initiate the so-called Minimum Package Programme, which concentrates on the introduction of a few technical innovations (mainly improved seeds and fertilisers), plus easier credit, plus extension services, depending on the needs of particular areas. Alongside these diversified programmes for the development of small-scale traditional farming, the Government has also encouraged large-scale commercial agriculture through the Awash Valley Authority, the North Western Lowlands and the Shashamane projects.

Means of promotion have been of various kinds. First of all, a large part of government support has consisted in the provision of essential infrastructure, such as roads, bridges and experimental stations. Secondly, the Government attempted to make relatively cheap credit available through the establishment of the Agricultural and Industrial Development Bank in 1970. Unfortunately, its loans have so far almost exclusively benefited large-scale commercial farming. Thirdly, provision for tax holidays has similarly favoured only the large commercial farms. Under the Investment Proclamation of 1966, a five-year exemption from income tax payments is accorded to a commercial farm with assets of $200,000 or more. Though the investment limit is quite high, it is believed that a number of large agricultural entrepreneurs all over the country, but notably those in the Awash Valley, have taken advantage of this privilege. Fourthly, various government subsidies favour the large-scale farming sector: tractors and plant protection chemicals are exempted from import duties. It should be pointed out, however, that virtually all industrial machinery is also duty-exempt and that fertilisers are being increasingly used by small farmers.

This cursory picture of Ethiopian agriculture—mainly seen from the point of view of its direct and indirect employment implications—is admittedly long on detail and short on analysis. But we hope that enough has been said to indicate that there are considerable potentialities in the agricultural sector for the absorption of additional labour. In the main, these potentialities will only be fully realised if small peasant farmers are given adequate incentives to expand their output. We will return to this theme later on.

The employment effects of macroeconomic policies

There is an unfortunate tendency in many developing countries to see macroeconomic policy as something that has little direct effect on long-term development strategies: its role is to maintain effective demand and to accommodate the development strategy, say, by maintaining low interest rates and by protecting the balance of payments. We take the view, however, that even a superficial treatment of the employment problem in Ethiopia immediately directs attention to certain features of Ethiopian macroeconomic policy which systematically favour capital-intensive rather than labour-intensive processes of production. Exchange rate policy, tariff policy, tax policy and monetary policy have all tended to foster mechanisation in industry and agriculture. The result has been a relatively low rate of growth of demand for labour, given the level of investment and output achieved. Furthermore, it appears that, in addition to the standard structural reasons for unemployment and underemployment in a country like Ethiopia, some of the unemployment of recent years is actually Keynesian in character; that is, it is the result of deficient aggregate demand which could have been avoided by a different mix of policies.

The Ethiopian policy of maintaining a fixed exchange rate, and the two recent revaluations against the United States dollar, have in effect adjusted aggregate demand in Ethiopia to the volume of foreign exchange produced by coffee exports. When coffee prices decline, internal demand and hence economic growth are sacrificed in order to keep the demand for imports in line with the supply of foreign exchange. Since Ethiopia has a clear comparative advantage in the production of coffee, the " overvalued " exchange rate has not destroyed Ethiopia's capacity to export coffee but it has undoubtedly held back her other exports. In order to adjust to the slow growth of foreign exchange earnings, foreign exchange control has become a virtual necessity.

The " overvalued " exchange rate has encouraged entrepreneurs in the country to adopt highly mechanised methods of production, with the result that employment in manufacturing has grown much less rapidly than output. Similarly; the " overvalued " exchange rate has inhibited the growth of non-coffee exports and these are in general products which require much labour in their production. The products which Ethiopia could export, if local prices were improved by devaluation, include cotton, fruit, vegetables and other labour-intensive agricultural products, as well as some labour-intensive light industry goods. Furthermore, devaluation would also encourage the substitution of imported goods (and local goods with high imported inputs) by labour-intensive manufactured goods produced in the country. In particular, devaluation would help small industry, which presently works with low levels of capital per worker employed.

In order to maintain a fixed exchange rate, as we have said, the monetary authorities have been forced to curtail aggregate demand whenever coffee prices have fallen. This has been achieved through tight credit on the part of the central bank, with consequent effects on the supply of money. Such policies have indeed achieved the purpose of maintaining reserves but only at the expense of employment. When aggregate demand is cut back through restrictive monetary policy, the result is declining industrial sales, increases in inventories, and underutilisation of installed capacity. During such recessions, as for example in 1970-72, both output and employment have sagged badly. This is hardly surprising because fluctuations in aggregate demand, which inevitably result from the fluctuations of coffee prices once a fixed exchange rate is the principal goal of exchange policy, are well known to introduce an element of uncertainty which discourages investment in manufacturing industry.

In summary, it appears that fluctuations in money supply, in response to changes in the balance of payments, have promoted a condition of deficient aggregate demand. That is to say, some of the urban unemployment which has been worrying the Government in the last few years would not exist if money supply during this period had grown at rates slightly above those of the growth in GNP.

High nominal duties and even higher effective tariffs have been one of the major instruments of the import-substitution policy in Ethiopia. Although a certain degree of protection is useful to foster " infant industries ", the level of protection in Ethiopia does seem excessive. Thirty per cent protection has been found to be sufficient for many infant industries in developing countries, and a 50 per cent protection rate is high by international standards. But over a wide range of products, protection in Ethiopia typically exceeds 50 per cent.

In addition to creating inefficient industries which produce very little domestic value added, such levels of protection lead to domestic prices substantially above world prices. By making inputs expensive to local producers, they thereby inhibit the potential exportation of manufactured goods which use these inputs. Since Ethiopian exports generally have a large labour-absorption capacity, this price effect may well cause long-run employment problems. In fact, the experience of developing countries around the world has shown that rigid adherence to an import-substitution policy makes it virtually impossible to develop exports different from the traditional primary products in which these countries have a clear comparative advantage.

Apart from the general level of tariffs, the structure of tariffs has also been a barrier to employment creation in Ethiopia. Most capital goods which are capable of displacing labour carry a zero duty, while simple tools such as sickles and spades, which are a complement to labour, carry positive duties. But more important still, wage goods have been made expensive by custom duties, excise taxes and transfer taxes, while capital goods enter the country free of duty. Thus the goods consumed by workers, such as sugar and cotton products, carry high tariffs and prices, while machines that displace workers bear little or no tax. This means, in a phrase, that capital is cheap and labour is dear, which obviously encourages entrepreneurs to mechanise production.

The extreme case of these misallocation effects of the present tariff structure is that of farm equipment. Tractors enter free of duty and until quite recently their operation was subsidised through exemption from the fuel tax.[1] This has meant that some farmers have found it profitable to import tractors to displace tenants and farm workers. This phenomenon has been verified in the CADU project and the mission saw evidence of it in other rural areas.

The tax structure in Ethiopia seems to be well conceived and efficiently administered but some of the tax regulations do in fact discriminate against employment. Among these is the income tax on firms; some of its features in effect subsidise capital in large enterprises at the expense of labour and at the same time discourage labour-intensive small industries.

The inequities and low levels of land taxation also are unfortunate, since land taxes, in addition to providing much-needed tax revenue, are a good way of forcing landowners to use their land intensively, and this in turn would increase employment in agriculture.

Much could also be said about the general level of taxation. As is frequently pointed out in World Bank reports, the tax burden in Ethiopia is low in relation to that in other countries at similar stages of development. This accounts for the rather low levels of public investment in Ethiopia, which may in turn help to explain why employment has increased less than one might have expected, given the relatively high rate of growth of Ethiopian GNP in recent years.

An employment-oriented development strategy

In the preceding sections of this article an attempt has been made to present an over-all picture of the employment situation in Ethiopia as our mission saw it, and to explore and assess the effects of the policies presently being applied in this field as well as at the macroeconomic level. The remaining pages will set out and explain the principal policy recommendations made by the mission: we believe that these recommendations, taken together, constitute the kind of employment-oriented development strategy that can make a real impact on Ethiopia's threatening unemployment problems.

Urban unemployment

Under this heading we first discuss policies which can be implemented immediately and which will tend to have a fairly rapid effect on urban unemployment; we then turn to policies which take longer to implement; and we conclude with a warning against others which seem inadvisable.

[1] Exemption from the fuel tax was abolished in March 1973 at just about the time that our report was delivered to the Government.

SHORT-TERM POLICIES

It is our contention that Ethiopia is one of the few developing countries clearly suffering from unemployment caused by inappropriate macroeconomic policy. A devaluation of the currency, an expansion of the money supply, the abolition of certain tax exemptions and a reform of the tariff structure would make a considerable impact on employment in a period perhaps as short as six months.

Two policies which would also make fairly quick inroads into the unemployment problem amongst secondary school leavers are the implementation of the Education Sector Review and the expansion of the Minimum Package Programme in agriculture. In both cases, a large number of the school leavers would get jobs in rural rather than urban areas. If the recommendations of the Education Sector Review were implemented there would be an immediate increase in the demand for school-teachers; it is true that the double-shift system in primary education would reduce the demand for primary school-teachers even with the planned increases in primary school enrolments, but the total demand for teachers would nevertheless increase owing to the additional teachers needed to handle the new " basic formation " courses. If the Minimum Package Programme were expanded, vacancies for both extension workers and technical assistants would be created, and secondary school leavers ought to be able to fill many vacancies at the assistant level, at least if they were provided with short courses to acquaint them with the special problems of agricultural extension.

MEDIUM-TERM POLICIES

The Government should put more resources into employment exchanges and a serious effort should be made to obtain better data on vacancies. Employment exchanges would then be able to provide better information on labour demand to urban dwellers, whether employed or unemployed, and to potential rural-urban migrants. They could also be used to lubricate the labour market by feeding information to relevant educational institutions on occupations where labour shortages exist. The employment exchanges ought to assume the role of vocational counselling, inasmuch as half of all registrants are seeking their first job. This would tend to raise the placement rate of employment exchanges above its current 10-15 per cent level. Sympathetic counsellors would be very useful in " talking down " the inflated expectations of the educated unemployed, although we should not of course expect miracles from counselling itself.

Serious consideration should now be given to the adoption of a statutory wage policy. A wage policy which reduces differentials between urban and rural incomes is clearly sensible on equity grounds. It also has the advantage of reducing the attractiveness of urban residence for potential migrants; the admittedly higher cost of living in towns has so far not succeeded in discouraging urban migration, apparently because the *real* differential between town and countryside is too large. A policy of reducing money differentials between urban and rural earnings is crucial if employment in the non-agricultural sector is increasing: an increase in urban employment raises the probability of getting a job; it therefore raises expected urban income, which appears to encourage rural-urban migration, and this leads in turn to a rise in the absolute numbers of urban unemployed. A reduction in the rural-urban wage differential will therefore cause urban unemployment to be lower than it otherwise would be.

Current differentials by levels of education undoubtedly contribute to the problem of educated unemployment in towns. These differentials are huge by almost any standard: for example, a new graduate entering the Ethiopian civil service earns nearly as much as his counterpart in the United Kingdom. In view of such differentials, it is hardly surprising that unemployed graduates or secondary school leavers refuse to take the first job that comes along. The object of a statutory wage policy, therefore, must be to reduce not only rural-urban differentials, but also urban differentials associated with additional years of schooling. Possible forms of such a wage policy include: *(a)* a " strong " policy of freezing pay in the civil service and manufacturing sector for a specified number of years; *(b)* a somewhat weaker policy of freezing the pay of entrants into both the civil service and the private sector unless the government department or the business firm can demonstrate it is suffering from an excessive amount of labour turnover; and *(c)* a rational civil service wage structure, that is, a " positions classification system " which would abandon pay scales based on educational qualifications in favour of pay scales geared to the skill requirements of jobs. We believe that versions *(b)* and *(c)* are appropriate to the current Ethiopian situation.

It is agricultural development, however, which holds the key to a reduction in the rate of rural-urban migration. It is this policy which would have the greatest positive influence on alleviating the employment problem in the medium and long term. In the very, very long term, the solution for the problem of unemployment would have to include a family planning programme. Unfortunately, there seems to be little hope of launching such a programme on any comprehensive basis in Ethiopia for many years to come.

POLICIES TO AVOID

Some policies to alleviate urban unemployment appear superficially attractive but deeper consideration suggests they may be positively harmful. For example, if the Government operates solely on the demand for urban labour by wage subsidies or the expansion of industrial output, this raises expected urban income relative to rural income and encourages migration from rural areas, thus replenishing the pool of urban unemployment.

Pressure on private firms to take on more labour than they require, or to replace foreigners with Ethiopians across-the-board, is to be avoided. If firms are forced to take on more labour than they need they will become unprofitable and this must tend to reduce the rate of growth of output and employment in the future. Similarly, whilst replacement of foreigners is certainly possible in some cases, in general their replacement would entail definite costs in the form of output lost or training costs incurred. Besides, a programme of replacing foreign labour would generate only some 10,000 extra jobs.

Public works programmes as a " crash " approach to urban unemployment come to mind immediately in any discussion of short-term remedies. Nevertheless, great care is needed in the selection of emergency schemes designed for specific groups of people. Witness, for example, the Youth Volunteer Corps scheme, which has recently been approved by the Cabinet. The scheme, known as the Hosanna-Soddo Road Construction Project, envisages the construction of a 96 kilometre (60 mile) road by primary and secondary school leavers, 18 years of age and above. It is expected to employ 1,100 persons and will cost about $6 million over a period of three years. Youth employment schemes for school leavers have been tried in many countries with varying degrees of success. Nowhere, however, have secondary school leavers been lifted from cities and put to work on arduous road construction projects. In Kenya and Malawi, where youth schemes have worked with some success, the approach has been quite different. They are organised on para-military lines and they recruit only primary school leavers and drop-outs. In Kenya, where participants do work for some time on construction of infrastructure, the objective is to discipline and train school leavers in some useful craft. In Malawi, on the other hand, the objective is not only to discipline them but also to settle them on land or, in some cases, to convert them into agricultural extension workers.

Admittedly, the Hosanna-Soddo Road Construction Project is not a national youth employment programme in the sense of the schemes in Kenya and Malawi: it is conceived as a costless experiment in the re-education of school leavers in the hope that they will acquire new values and attitudes. It may prove successful but frankly we doubt it. We think there are strong *a priori* grounds for believing that *urban* unemployed school leavers can be retrained in *urban* public works projects and, similarly, that *rural* unemployed school leavers can be retrained in *rural* public works projects but that the attempt to put urban youngsters to work on rural projects will almost certainly fail. Therefore, the " crash " approach to urban unemployment depends on the ability to come up with economically efficient public works projects that are located in towns.

The employment of women

The problem of generating employment is normally discussed in terms of male employment. A Central Statistical Office survey of employment in 12 provinces of Ethiopia, conducted in 1970, claimed that 90 per cent of the men in rural areas but only 7 per cent of the women were " economically active ". Yet the most casual inspection of the Ethiopian countryside will convince any observer that women, apart from cooking, cleaning and caring for children, always fetch the family water supply (in a country where many settlements are far from springs or water-holes); frequently gather the fuel; have responsibility side by side with men in agriculture; assist with or are responsible for the weeding, manuring, harvesting, portage, cleaning and storage of many crops, including bush and grain crops; engage in spinning and carding of raw cotton; engage in tending domestic and farm animals; and carry products to and from the market. To talk in these circumstances of only 7 per cent of rural women being economically active is literally absurd, and must be due to the slavish imitation of Western definitions of economic activity in which a woman who stays at home to look after her family is dubbed a housewife and hence " economically inactive ".

What's in a name and what's in a definition? it may be said. Unfortunately, reliance on statistics such as these contributes to the neglect of the special employment problems of women. It leads to an emphasis on public works schemes, such as road-building, which make no provision for unemployed women. It leads to vocational training programmes largely geared to male occupations. It leads to a concern with " intermediate technology " to improve the ploughing and sowing of grain crops, without a thought to devices that could replace human water portage. It leads to the neglect of rural health services because they are thought to have no direct economic impact on things other than birth and death rates. In short, there is in Ethiopia, as elsewhere in Africa, a simply monstrous disregard of woman as a crucial human resource.

The neglect is so deep and has gone on so long that it is hard to know where to begin in redressing it. It is not enough to include women in all rural projects since many of these projects, for example the Minimum Package Programme, do not directly affect the traditional tasks of women. What is needed is special programmes geared to vegetable gardening, animal husbandry, poultry keeping, etc., as well as health and nutritional campaigns directed principally to women. Nevertheless, in the meanwhile there is much to be said for bringing more women into agricultural extension. Female students could be trained at the Ethiopian Schools of Agriculture to help women in their role of farmers, farm workers and housewives in the same way that male extension agents now help male farmers. It is true that this would not itself improve the material position of women as farmers and farm workers but the female extension agents would become intimately aware of the problems of rural women and could feed back information to the Ministry of Agriculture so that suitable programmes geared to the traditional tasks of women could be developed.

In the cities, the problem of female unemployment is probably worse than male unemployment and here too special attention must be given to vocational training programmes and self-employment schemes in the " informal " sector addressed specifically to women, not to mention enforcement of the Discrimination (Employment and Occupation) Convention in wage employment. In many countries, teaching is a traditional field of employment for women. This is not so in Ethiopia. The female participation rate in Ethiopian secondary and higher education is lower than it is elsewhere in sub-Saharan Africa and there is little hope of expanding female employment in teaching unless this bottleneck is broken. There is hardly anything more difficult, however, than to change parental attitudes to the education of daughters. We believe that consideration should be given to the question of special subsidies for the education of women. If higher education in Ethiopia is to be refinanced, as proposed in the Education Sector Review, special scholarships for girls and more favourable treatment of girls in the case of repayable student loans would be desirable. We do not think that Ethiopia should go as far as to adopt sexual quotas in primary schools but even this idea is worth a fuller discussion than it has received.

Labour absorption in agriculture and rural development

The greatest potential for a major thrust in agricultural development lies in the Minimum Package Programme (MPP): it promises substantial increases in agricultural production, notable improvements in farmers' income and, subsequently, a higher demand for agricultural inputs and non-agricultural goods and services. The diffusion of the MPP is bound to lead to the emergence of a more diversified employment structure; although in farming itself the trend towards higher labour productivity might not leave much room for additional employment, this will most certainly be offset in the long run by the creation of jobs in occupations supporting and benefiting from improved agriculture.

At present, the rate of expansion of the MPP over the next ten years is planned at ten projects per year, each comprising an area with some 10,000 farm families. Financial and, in particular, manpower constraints are said to have dictated this policy. With such a rate of expansion, about a quarter of the Ethiopian farm population will have been reached by the MPP in the year 1983. This may seem a slow rate of progress but of course one must keep in mind the general influence of the MPP in farming areas as we approach the stage of one-quarter saturation.

While a substantial MPP is expected to lead to a diversification of the employment structure and to have some employment impact in the long run, immediate relief in terms of increased employment opportunities in the old-established farming areas will have to come from a considerably stepped-up settlement effort. However, this cannot be expected from the current approach to settlement. The settlement efforts of recent years are too costly and too cumbersome. We wonder whether the promotion of spontaneous settlement, with a minimum supporting effort on the part of the Government, would not be the most effective way of generating employment opportunities in the years to come. Land reserves in the form of government-owned land available for settlement in the next 30 years are estimated to amount to some 8.5 million hectares (21 million acres); but this figure assumes that the Government abandons the patronage grant system.[1] With an average holding per settlement of 8 hectares (20 acres) more than a million farm families from the overcrowded highlands could be settled on government land. Once again, however, it is necessary to add that there is no reliable information in Ethiopia on how much land suitable for settlement there really is and just where it is situated. Before any substantial land settlement programme can be started, it is essential to obtain this information. Cadastral surveys of Ethiopia are the be-all and end-all of every effort to improve agriculture.

While the MPP and land settlement, if carried out on the substantial scale outlined above, are bound to have a significant employment impact, even they will not suffice to absorb the extra labour that will materialise in the next few decades. It is hoped, however, that these two major agricultural programmes will generate a growing market for goods and services demanded by farmers. The demand already exists in rural areas, as evidenced by a large variety of non-agricultural occupations which can be found in many of the villages and small towns that dot the Ethiopian countryside. However, this informal, non-agricultural but rural sector is still relatively underdeveloped and there would appear to be scope for encouraging it in line with progress achieved in the agricultural sector. Measures for the promotion of non-agricultural activities within farming areas find an ideal place within what we like to call " an integrated rural development programme ". The need for such an over-all approach to rural development is being increasingly recognised in Ethiopia. However, the demands that such a programme places on manpower and financial resources are enormous and it would seem advisable to begin with limited experiments before mounting a larger-scale effort.

Fortunately, such experiments are already being considered or are actually under way in three geographically limited agricultural develop-

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[1] Patronage grants of land are extended as a reward to public servants and soldiers and also, on social grounds, to the landless and unemployed.

ment programmes, namely the comprehensive package programmes of CADU, WADU and the Awash Valley Authority project. These will claim relatively modest additional resources from the Government, since most of the major elements of an integrated rural development approach are already present in these projects. They have rendered invaluable preparatory and supporting services for the MPP and it is to be expected that they will be equally useful for an expanding integrated rural development effort.

These major programmes in agricultural and rural development will have to be supported by a number of complementary measures. As they gather momentum, the need for land reform will become ever more self-evident. But even now some initial steps towards the comprehensive reform programme prepared by the Ministry of Land Reform and Administration are urgent. This comprehensive programme, brought together in the " Draft proclamation on agricultural tenancy relationships " as submitted to Parliament during its 1971/72 session, has not so far found much response in Ethiopia. No doubt this is because of firm opposition to it on the part of certain " vested interests " in the country. But perhaps this piece of legislation tries to bite off too much too soon. Perhaps a more modest approach at this time might prove more successful. One might begin with the early introduction or adoption of clearly established contractual arrangements between landlords and tenants, stipulating the responsibilities of both parties; model leases might be prepared, whose adoption would obviate litigation between each landlord and tenant in the country. Further, there is the question of establishing land titles through cadastral surveying and registration; without these, information on farm size distribution, ownership patterns, tenure arrangements, employment structure, etc., must remain fragmentary guesswork. Surely, it is high time to launch a cadastral survey at least in one or two provinces of Ethiopia?

A particularly important contributory element in agricultural and rural development is road construction and it is recommended that a sizeable programme be mounted in conjunction with the expansion of the MPP. Its salient feature should be the carrying out of construction activities in advance of the introduction of the MPP in a given area, so that an adequate system of penetration and feeder roads can be gradually developed. Moreover, it is expected that advance construction will facilitate voluntary contributions by the prospective beneficiaries in the form of cash, labour and equipment, an approach that has been adopted with remarkable success by the Community Development Programme in Ethiopia. Finally, rural construction work in advance of a major effort at agricultural development in a given area will minimise the disturbing effects on local grain markets that may result if rural road construction is supported by gifts in kind from such donors as USAID Food for Work and the World Food Programme.

Macropolicy measures

In order to tackle the employment problem of Ethiopia, we must first ensure that aggregate demand is sufficient to absorb whatever labour can be employed with the existing capital stock. There are a number of macroeconomic policy measures which could stimulate the demand for labour almost immediately and which would, at the same time, set the stage for micropolicy measures to permanently improve the employment situation.

The most obvious measure to take is to immediately eliminate all labour-displacing capital subsidies:

(1) Import duties on tractors and other agricultural machinery should be increased to 30 per cent; water pumps could still enter free of duty. The resulting increase in revenue, boosted by the discontinuation of the fuel tax exemption for tractors [1] and assuming a constant demand for fuel, would have been of the order of $7.42 million for 1970-71 (according to the Excise Department); these funds could be immediately invested in employment-creating agricultural settlement programmes.

(2) Import duty relief for agricultural and industrial machinery should be immediately discontinued and the revenue saving should be used to fund " industrial parks " and " trading houses " for labour-intensive small industry.

(3) Income tax relief for three to five years should be extended to small industry and not limited to enterprises with a minimum investment of $200,000.

In addition to these recommendations, there are four additional areas of macroeconomic policy which call for comment.

EXCHANGE RATE POLICY

In order to stimulate employment in export industries and to diminish the vulnerability of the Ethiopian economy to fluctuating world demand, the Government must adopt an exchange rate policy that will guarantee the rapid growth of non-coffee exports; that is, it must devalue sufficiently to guarantee the growth of non-traditional exports. The Government should view the exchange rate as a policy instrument and not a policy goal. It should undertake macroeconomic policy appropriate to employment generation and establish the exchange rate at whatever level is necessary to achieve balance-of-payments equilibrium. It

[1] As explained above, this latter measure, which was among the mission's recommendations, was adopted between the time our report was written and the time it was delivered to the Government.

should not generate unemployment as a way of holding constant the par value of its currency against gold. We do not claim to know what the size of the devaluation should be but it would be prudent to devalue slowly and to begin with a devaluation of about 5 per cent in the first year. This level of adjustment will effectively discourage speculation, since the interest rate available to speculators who tend to engage in precautionary imports would not be less than 6 per cent.

It is worth mentioning that the present policy of coffee taxes is in the right direction, and the idea that this tax should rise as prices in New York increase is exactly what is needed. To avoid excessive windfalls to coffee producers from devaluation, a similar system should perhaps be devised for the price of coffee in domestic currency, since this price also will tend to rise with devaluation.

We are of course aware that there are certain arguments in Ethiopia against devaluation. Basically, these are (1) the belief that maintenance of the gold parity of the Ethiopian dollar creates an " image " of financial stability in world capital markets; (2) that devaluation would generate urban inflation via the higher price of imports; and (3) that non-coffee exports are not very price-responsive, so that devaluation would do little to encourage their production. Argument (1) is too vague to require much discussion, except to say that there is little evidence that countries which refuse to devalue under any and all circumstances attract a disproportionate amount of foreign lending. Argument (2) is more serious, particularly as some of the most rapidly expanding industrial products of Ethiopia (e.g. petroleum, plastics, rubber and metals) are precisely those which rely heavily on imported inputs. Unfortunately, many of these and other industries based on imported raw materials are in fact economically inefficient, in the sense that the net foreign exchange saving from production at home is actually negative. As for consumer goods, it is probably true that devaluation would raise the prices of luxury imports, but it is difficult to see why this ought to be considered a strong argument against devaluation. Lastly, the " elasticity pessimism " implied in argument (3) rests on very little foundation. Ethiopian manufacturing exports have been growing at 17 per cent per annum between 1967 and 1970 and some of these (foods, beverages, printing and publishing) receive little or no protection, whereas others (leather and footwear, wood products and furniture, cement, glassware and perhaps textiles) would clearly have grown even without tariffs, the duty-paid import prices being in some cases higher than the price of domestic products. It is really only petroleum, metal processing, paper, chemicals and some textiles which depend for their continued existence on effective protection. In other words, there are major segments of the industrial sector in Ethiopia which are not high-cost, import-substitute industries dependent on high tariffs. Furthermore, there is hardly any doubt that most of Ethiopia's agricultural exports are extremely price-responsive. Summing up, we may conclude that all three arguments against devaluation are, at best, weak arguments. In contrast, the case for devaluation is overwhelming and it is not a case based solely on grounds of employment.

MONETARY POLICY

As we have argued earlier, the Government should not allow aggregate demand in the economy to fall owing to foreign exchange considerations, since this leads to perfectly avoidable urban unemployment. As a general rule, and without making a fetish of a constant rate of growth, we suggest that the money supply should increase at a more or less steady rate, the exact rate being determined by the Government's view of what would constitute an adequate rate of growth of GNP in current prices, to which a percentage point or two should be added to take account of the growing monetisation of the Ethiopian economy.

Given the special nature of savings deposits in Ethiopia, probably a wide definition of money supply should be used, namely notes and coins, regular bank deposits, time deposits and savings deposits, and this quantity of money should grow at, say, 5 to 8 per cent a year. This rate of growth should only be allowed to fall if for some unavoidable reason a lower rate of growth of GNP than 5 per cent is foreseen in any one year.

TARIFF POLICY

Our earlier comments laid great emphasis on the need to change both the level and the structure of tariffs in Ethiopia. This has also been the theme of various World Bank reports on Ethiopia. The general outline of the reform is simple to set out. Tariffs should cease discriminating against labour-intensive industries and labour-intensive processes. A good way to start would be to levy import duties on capital goods which now enter free of duty. However, this is an area which needs more work before proceeding further: we recommend that a high-level Task Force be created, possibly with some technical assistance, to achieve the too-long-delayed reform of Ethiopian tariffs.

FISCAL POLICY

A tax structure which maximises the volume of employment is one that encourages investment and growth, and at the same time produces elastic revenues for labour-intensive government projects. In the case of Ethiopia, such a tax structure would place a new emphasis on land taxation. An effort should now be made to undertake a cadastral survey of at least part of the country, in order to establish a simple *ad valorem* tax on the value of well-identified pieces of urban and rural land. Such a tax has no disincentive effects: on the contrary, it encourages landowners to exploit their land more intensively. A land tax is not difficult to administer, although it may be politically difficult to adopt, and the proceeds of the tax, if spent locally, will make it possible to finance labour-intensive projects designed to improve the income of the poorer sector of the agricultural population.

A second characteristic of an employment-creating tax structure is that it should rely on high sales taxes or excises on luxury goods, which tend to be produced with imported inputs by capital-intensive methods. Such excise taxes would lower the relative price of traditionally produced goods and services, which at present have a high ratio of employment per unit of capital employed.

Finally, whatever else is said, an increase in the tax burden, if dedicated to public investment, is capable of raising total domestic capital formation by more than the associated decline in private investment, owing to the consumption expenditure of the people who would be subject to taxation. Thus a greater tax burden would by itself increase total investment and employment.

Future work

Our terms of reference directed us " to reach specific conclusions as to what eventual further collaboration from ILO will be needed and when, for formulating and spelling out a comprehensive employment policy ". We reached the general conclusion that a Comprehensive Employment Strategy Mission along the lines of those sent to Colombia, Sri Lanka, Iran, Kenya, the Dominican Republic and the Philippines would not be desirable in the case of Ethiopia. In our view, such a mission would merely duplicate the study of the Planning Commission Office, *The employment problem in Ethiopia*, mentioned above. In other words, we regard the PCO paper as furnishing a perfectly adequate basis for a long-term comprehensive employment strategy in Ethiopia. A large mission would merely disrupt the formulation of the Fourth Five-Year Plan, without adding much substance to what has already been achieved by the Ethiopian Government itself.

However, it is more difficult to implement a comprehensive employment strategy than to formulate it. We do believe that the Ethiopian Government could benefit from assistance by the ILO in working out consequential details of the Plan, and in particular in implementing the regional aspects of its proposals. With that in view, we recommended that the Government should ask the ILO to staff an inter-agency Employment Strategy Implementation Project of about 15 experts. As many as eight of these should be agricultural specialists; one or two should be educational specialists with practical experience of labour-surplus economies and the remainder should be experts on tariff reform and small-scale industries. We believe that the duration of the project should be three to four months.

One reason for postponing *any* mission for the time being is, as we have said, to avoid interfering with the preparation of the Fourth Five-

Year Plan. There are, however, additional reasons for waiting. There is a serious lack of adequate data needed for implementing a comprehensive employment strategy. However, various studies are now in the early stages of preparation or are actually under way which should generate a considerable amount of new data. Most important of all, the first Population Census is due to be held in 1974, to be followed shortly by a number of 5 per cent sample surveys. Secondly, a Household Economic Survey presently in progress should provide a great deal of information about living standards, family size and composition, hours of work and remuneration. Similarly, the coverage of the Annual Survey of Manufacturing Industry and of the Small-Scale Industry Survey have recently been expanded. All this will broaden the factual basis for an attack on the employment problem, and it seems to us that an Employment Strategy Implementation Project that has these additional data to work on will be better placed to assist the Ethiopian Government in implementing the employment strategy of the Fourth Five-Year Plan.