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INSTITUTE OF DIPLOMACY AND INTERNATIONAL STUDIES

THE EFFECTS OF MILITARY SPENDING ON ECONOMIC WELFARE IN THE CASE OF ETHIOPIA (1974-2010)

BY

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DECLARATION

I, Jonathan Kithi Alexander, declare that this dissertation is my	y original work and has not been
submitted for the award of a degree in any other university.	
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DEDICATION

The first person I would love to dedicate this study to: is my loving, caring and ever supportive mother, Anna Kithi, who taught me that the best kind of knowledge is that which is taught from its own sake, my late father Mr. Alex Kithi, whose perspective on life has taught me patience, resilience and the fruits of hard work.

To my sisters: Prisca and Florence my uncle James Kahindi and his son Timothy Kahindi, uncle James Polah, because it is through their tireless effort, love, patience, encouragement and commitment to me that I have reached this far.

To all development conscious Ethiopian friends, who are fighting to see a peaceful and a developed Ethiopian nation.

This Thesis is finally dedicated to all hardworking individuals who wish to change their lives through Education. My typist Ms. Rose Mary should also not be forgotten for her effort to make the work look organized.

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LIST OF ABBREVIATIONS

ACDA - Arms Control and Disarmament Agency

CAB - Current Account Balance

CRC - Citizen Report Card

DRC - Democratic Republic of Congo

EDU - Ethiopian Democratic Union

EPLF - Eritrean People Liberation Front

EPRDM - Ethiopian People's Revolutionary Movement

EPRP - Ethiopian People's Revolutionary Party

ESDP - Education Sector Development Program

EWP - Ethiopian Workers Party

FDI - Foreign Direct Investment.

GCE - Gross Capita Formation.

GDN - Global Development Network

GDP - Gross Domestic Product

GNP - Gross National Product

HIPC - Heavily Indebted poor Countries

IDIS - Institute of Diplomacy & International Studies

LDCs - Least Developed Countries

MDGs - Millennium Development Goals

MIC - Military Industrial Complex

MILEX - Military Expenditure

MOFED - Ministry of Finance and Economic Development

MOND - Ministry of National Defense

NATO - North Atlantic Treaty Organization

NBE - National Bank of Ethiopia.

NER - Net Enrollment Ratio.

ODA - Official Development Assistance.

OECD - Organization for Economic Co-operation and Development

OLF - Oromo Liberation Front

OPEC - Organization of Petroleum Exporting Countries

PANE - Poverty Action Network of Civil Society Organizations in Ethiopia

SIPRI - Stockholm International Peace Research Institute

TPLF - Tigray Peoples Liberation Front

UNDP - United Nations Development Programme

UPE - Universal Primary Education

USA - United States of America

WMEAT - World Military Expenditure and Arms Transfers

ABSTRACT

One of the most captivating problems faced by global relation scholars in the present day is the impact of defense spending in the furtherance of a country's financially viable welfare. As a matter of fact, it is an area under discussion with such wide corollary that no claim to a complete treatment can be straightforwardly made. On the other hand, this study attempts to hold a consistent view of the subject when taking up Ethiopia as a case study. The project begins by laying the foundation of the study through setting the objectives that guided the study. The study's general objective is to find out the impact of military spending on the economic welfare with Ethiopia as a reference point. The study relies primary data and also on existing literature and policy papers to discuss the issues under the area of the study. The study also discusses and applies the Neo-classical theory to explain the effects of military spending on economic welfare in Ethiopia.

The study then presents the political dynamics of Ethiopia. At one point the country was governed by a dictatorial and Marxist-Leninist leaning regime the policy-making responsibility of which was practically concentrated in the hands of one individual, namely Mengistu Haile Mariam. Beleaguered by political frictions and civil wars, the country struggled with copious military and political threats, which were basically embedded in the Horn of Africa region. Beside the backdrop of these threats, the post-1974 regime engaged in and maintained a high level of military spending, watchfulness and aptitude. The study underline that the net consequence was the creation of possibly the largest and best equipped Armed Forces in Sub-Saharan Africa. The study also stresses that the regime guided the Armed Forces by a dogma largely based on the Soviet model, centralized the High Command, conducted constant training and scrutiny, and put its devotion in the amassing of weaponry that was mainly provided by the

Soviet Union. The study finally discusses the effects of military spending on economic welfare by dwelling on the effects on dependency, national debt and social security. Policy recommendations are then elucidated at the end of the study.



Military or welfare?

This is a question which gave Mengistu's regime a dilemma. During the derg regime, government expenditure on welfare was competing with the military in terms of importance since there was a lot of internal security amongst the Ethiopians. It was during this time that Mengistu acquired a nick name as the "Red Negus" (The red Emperor) this was because he began to rule the country with an iron fist as he oversaw the read terror. The study sited Mengistu's regime as it is widely believed that it's the better part of his reign that witnessed a poor provisions of social services due to the constant conflicts, Drought and famines, and the

revolutionizing of Ethiopia to be a socialist state, a path that was too rugged and expensive to be travelled by an African poor state like Ethiopia.

CHAPTER ONE: BACKGROUND OF THE STUDY

1.0 Introduction

Ethiopia was deliberately chosen as a case study because of the many unique factors and history that it has. To begin with, Ethiopia is widely seen as the cradle for mankind especially due to the discovery of Dinkenesh (also known as "Lucy") in 1974¹, the oldest known hominid skeleton, in the Rift Valley at Hadar in Afar Region. In addition, "the country can be given a high-flying place among the ancient civilizations of the world because of its possession of a written language which has enabled it to keep records." ² Secondly, Ethiopia is one of the few African countries which have been ruled by all three forms of Governments: Imperial, Military and Civilian (democracy). The third factor is that: it was never colonized and it's the diplomatic hub of Africa since the headquarters of African Union rests on its soil. The other factor is that in Africa, Ethiopia is among the poor countries which have been heavy militarized and poor social services since the reign of a military stratocracy; Mengistu, the former dictator. This is our subject of discussion throughout the study, as most people believe that heavy military spending affects the provision of social services as priority is always on defense consequently the welfare of the people is put at stake. Let's now give appraisal of the situation of defense spending globally.

The altered strategic setting has offered a prospect to reduce universal military spending following the end of the cold war. In the urbanized world the end of the superpowers' arms competition has, indeed, led to noticeable cuts in military spending, while in the third world the exclusion of superpower participation in regional conflicts has condensed tensions, military and

¹ Sarah Howard; Ethiopia Customs and Culture, an essential guide(2010).pg24

² Belay Giday; Ethiopian Civilization (1991) pg 70.

military-related support, and the degree of clashes³. Even though this has led to some diminution in defense spending in the third world countries, the situation is complex. Some countries are still escalating their expenditures, primarily in retorting to home insecurity threats and local arms races, but also encouraged by the drive for arms sell overseas by the urbanized countries. It is also noteworthy to appreciate that the cuts in martial spending that have taken place do not essentially mean a decline in militarization. Weapons have turned out to be reasonably priced in the ever more competitive world bazaar and the world remains a very hazardous place with numerous regional and social conflicts⁴. Categorically, the credence that military expenditure cutback will lead to a "peace dividend", is nevertheless far from being acknowledged by all.

Several people have argued that cuts in defense spending are more probable to result in a "peace penalty", due to the costs of adjustment⁵. The familiarity of the urbanized economies is rather beneficial, as they have generally failed to gain economically from cuts in their defense expenditures. While this is chiefly the outcome of failing to reallocate the investments made to new forms of expenditure as part of a strategy of exchange, to a certain extent than the absence of a peace dividend per se, it recommends that care ought to be taken to grow policies to aid structural adjustment.⁶ In the third world,-Sub-Saharan and the horn of African states have tended to inexplicably allocate limited wherewithal to the military. Such allotment habitually in opportunity cost terms translates to weakening of other divisions of the humanity which are

³ Kennedy's thesis paper: The decline of great super powers(1988)

⁴ Ibid.

⁵ Klein. Lo. Mckibbin: Arms Reduction: Economic: Implication in the post cold war Era pg197

⁶Dunne, Paul and Sue Willett, 1992. 'Disarming the UK: The Economics of Conversion', Discussion Paper 3, Centre for Industrial Policy and Performance, University of Leeds. Pp. 23-45

essential to safeguarding state security⁷. Consequently, the need to study the effects of military expenditure on the welfare of citizens has inevitable. The need is extra significant in the horn of Africa, where notwithstanding continued concern with enhancing military security to dissuade peripheral threat, the key threat comes from inside states as marginalized and barred segments of people both in countryside and metropolitan areas poses a threat of domestic conflagration⁸.

The above given information in relation to our case study, Ethiopia is the only country in Africa that escaped from colonial domination, apart from a short period of Italian living (1934-41). It has a long history of self-rule: the country's emperors were continually successful in repulsing foreign invaders and ardently conserved the country's self-rule. Undeniably, Ethiopia established martial traditions in Africa. Emperor Haile Selassie laid the basis for a contemporary eminent army in Ethiopia in the run-up to the Italo-Ethiopian war in 1935-36. By the year 1969, the Ethiopian army had four divisions with combat support services and logistical support units.

Between 1974 and 1990, the military help from the Soviet Union, made the *Derg* regime built a fearsome armed force, virtually half a million strong⁹. The apparently incessant unsteadiness in the country's political life has unquestionably affected how public services are planned and the way public finances are controlled and managed. This includes the financing of state institutions such as the armed forces. The different ideological orientations of the governments, from the monarchical regime of Emperor Haile Selassie via the Marxist-Leninist government of Mengistu

⁷ Dunne, J. Paul, 1996 "Economic Effects of Miltary Spending in LDCs: A Survey", Chapter 23 in Nils PetterGleditsch, AdneCappelen, Olav Bjerkholt, Ron Smith and Paul Dunne (eds) (1996) "*The Peace Dividend*", Contributions to Economic Analysis Series (Series editors: Dale Jorgenson and J.-J Laffont), North Holland, pp 439-464.

⁸Deger, Saadet & Ron Smith, 1983. 'Military Expenditure and Growth in Less Developed Countries', Journal of Conflict Resolution, vol. 27, no. 2, June, pp 335-353.

⁹Dommen, Edward & Alfred Maizels, 1988. 'The Military Burden in Developing Countries', The Journal of Modern African Studies, vol. 26, no. 3, pp. 377-401.

Haile Miriam and the *Derg* to the current capitalist neo-liberal ideology of Meles Zenewi, suggests that there have been different conceptions of the military-its role, mission, size and strategic importance to the state. The size of the country's military budget has been determined by these changes in ideology as much as by the perceived external and internal threats. In this study we will use the Mengistu's regime (1974-1991) as an example of a country spending more on defense at the expense of the welfare of its citizens. All the three Ethiopian regimes increased their military budget but Mengistu's regime was worse as poverty of the highest order encroached the nation and a dwindling standard of the general welfare of Ethiopians was experienced.

1.1 Problem Statement.

Assessing the importance of military spending to the economy remains an important task, especially given the growth in military spending in recent years and the recent financial crisis and recession. Although the political justification of much of the growth of military spending is usually based on the need to maintain national security, these recent dynamics have led to renewed debate over whether the increase of the military expenditure enhances or deteriorates economic growth and welfare. While this has been a central issue of the economic debate during the 1980s and 1990s it was one that did not achieve a clear empirical consensus among scholars, reflecting to a large degree the heterogeneity in the approaches used and differences in the sample of countries covered and the time periods covered. Ethiopia is a good example where government expenditure is not balanced as defense spending is prioritized. In terms of health and welfare, Ethiopia ranks among Africa and the world's poorest nation. The World Bank classifies Ethiopia as highly under developed country with an estimated annual per capita income of about US \$100. Poverty is widespread with less than half the population living below the basic needs

poverty lives. Health indicators are generally poor. The health care system is wholly inadequately, even in the view of improvements in recent years. It is based on the above scenario that this study sort to interrogate the nexus between military expenditure and economic welfare. The study focus on Ethiopia and Mengistu's regime that ruled Ethiopia from 1974 to 1991 was the foundation of analysis.

1.2 Objectives of the Study.

The general objective of the study was to interrogate the effects of military spending on economic welfare of Ethiopia from 1974 to 2010. Specifically the study sort to:

- a) Assess how higher military spending has affected the provision of social services in Ethiopia.
- b) Examine the effects of higher military spending on employment in Ethiopia.
- c) Analyze how higher military spending has contributed to poverty in Ethiopia.

1.3 Justification of the Study.

This study is justified under the following two captions – academic justification and policy justification.

1.3.1 Academic Justification.

In the tradition of International Relations approach to military security, security has been taken to imply physical security. Following the above logic, states have set up military institutions to deter any external actions which threaten their vital interests such as sovereignty, integrity and survival. However, the impact of this obsession with the military has lead to enormous spending on the military at the expense of other facet of economic life. This has led to new understanding especially concerning developing and least developed countries (LDCs) that the main source of

national security is internal; hence the term insecurity dilemmas. The need to address insecurity dilemma alludes to the importance of economic security approach to national security. The humanization of security is informed by the view that secure people create stable societies and nations. This fact calls for problematizing of national security strategies which prioritizes on military institutions at the expense of other sectors of the society. It is envisaged that this study will inform the debate in the realm of security in general and specifically economic security. It will inform literature on the effects of military spending on economic welfare. Other scholars will also use the material of this report to advance their research as there is still much to be done.

1.3.2 Policy Justification.

The continued preoccupation with physical security among policy makers has led to a view that people can only be controlled physically, and a wrong perception that security means physical security. As a result institutions mandated to guarantee physical security that is the military, the police force and intelligence apparatus have continued to take a disapropriate role in crafting of national security strategy. Consequently, the military aspect of security has overshadowed other aspects of security such as individual and societal well being and capacity for regeneration.

The above reality calls, for paradigm shift in approach to national security. Shift possible through exposing the black box of security to cross examination in order to show the futility of current approach to national security. This is only possible through studies problematizing security. It is envisaged that this study will help policy makers not only in Ethiopia to develop policy that will encompass economic welfare. Policies that will take into cognizance aspect of economic welfare that include economic security (the threats to which include unemployment, insecure jobs, income inequalities, poverty, homelessness); food security (inadequacies in terms of food

availabilities and food entitlements), health security (infectious and parasitic diseases, new viruses, respiratory infections, and so on); environmental security (degradation of air, water, soil, and forests); personal security (discrimination, exploitation, crimes, terrorism, and so on); community security (ethnic and communal conflicts); and political security (violation of human rights)

1.4 Research Limitations.

The study was limited on some fronts. One of the limitations was language barriers. The researcher was forced to use most of his respondents, university –students due to language barrier. Most Ethiopians speak, read and write in Amharic thus it was difficult for them to respond to the research questions. This led to biasness in the sampling of the respondents as only university graduates and students were administered with questionnaires. Secondly, lack of freedom of expression among Ethiopians was another major setback. Most of them were afraid to respond to some of the sensitive questions about the Ethiopian military for fear of the consequences of critiquing the regime in power. Consequently this led to delays in the completions of this research. Ethiopians were also not free to share their experiences with a foreigner even after a proper introduction; they still found it difficult to believe that the research was purely academic. A cultural difference was yet another major constraint during the study.

It was difficult as a foreigner to understand the Julian calendar that Ethiopians use. Since it is very different from the Gregorian calendar that most countries use. The researcher would go to a government office only to be told that it's a public holiday. A good example is the Ethiopian New Year (Enqutatash) which is always celebrated on every September 11, the finding of the true cross (Meskel) celebrated in every September 27. This is in accordance with the Ethiopian

Orthodox church. Last but not the least was the limitation was Time. The researcher selected his sample among students from twelve Ethiopian Universities across the country namely: Addis Ababa, Debra Birhane, Adama, Dessie, Bahir Dar, Gondar, Mekelle, Dilla, Awassa, Harar, Hope University and St. Mary's University. The geographical distances between these Universities are long and wide hence it took more time than anticipated. Despite all these limitations the study was worth conducting.





Due to language barrier only students from universities were the main interviewees, and also the ones administered with questionnaires. A big number of samples were taken from the above public university; Addis Ababa University- the oldest University in the country.

1.5 Literature Review

1.5.1 World Military Expenditure propensity.

Writings on the world martial spending is accessible though limited and most of the time imperfect. However, looking at the tendency in defense spending, it is imperative to indulge the published data with care, especially when dealing with emergent countries. This is because such data from these countries are always not reliable and imprecise. Numerical problems are constantly associated with the data: definitions, coverage, accuracy etc which make it particularly intricate to make use of figures for assessment across countries or to aggregate to larger groups. It is widely believed that there is some growing evidence that important amounts of defense expenditure are not computed in the accounts or budgets of most emergent countries. The chief reason can be merely due to the dissimilar conventions or attempts to "massage" the statistics using mechanisms such as double -bookkeeping, extra budgetary accounts, exceedingly aggregated budget categories, military assistance, and overseas exchange manipulation ¹⁰.

The degree to which the official statistics may differ from those of interest to the researcher is illustrated by Scheetz¹¹ (1991). In a meticulous analysis of military expenditure, his case study being in Latin America, Scheetz constructed a series for defense spending directly from the regimes' accounting agencies in control of public sector budget outlays, and thus capturing some of what had been debarred from the defense budget figures. He didn't stop there; he also made attempts to find clandestine (off budget) financial records used to obtain weaponry; a good cited example is Chile. The result in figures seem to be considerably larger than those published by

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¹⁰Ball, Nicole, 1984. 'Measuring Third World Security Expenditure: A Research Note', World Development, February, pp. 157-164.

¹¹Scheetz, Thomas, 1991. 'The Macroeconomic Impact of Defense Expenditures: Some Econometric Evidence for Argentina, Chile, Paraguay and Peru', Defense Economics, vol. 3, no. 1, pp. 65-81.

international organizations, but which Scheetz¹² still consider it to be conservative estimates. Such problems are also reflected in the fact that different data sources, SIPRI, ACDA, IISS, IMF and World Bank, can give markedly different numbers. A good example of the most extreme case was Argentina in 1982 where the IISS martial expenditure figures, and that published by the IMF differed by 1034%. Such differences are particularly imperative for cross section analysis of countries, but not so much for time series data. If looking over time, the concern is with the changes rather than the absolute or relative values of variables and as long as the definitions do not change significantly and systematically one can be relatively confident of the analysis.

Also, in most cases researchers are left with only the published sources to use and these are at least the products of attempts to achieve consistency. Even if data are comparable, the use of the exchange rate to put them into a common currency is not without its problems, as it will not reflect the different relative prices of the categories of military expenditure and the different compositions across countries. Heston and Atena¹³ provide data for a cross section of countries which have been adjusted to take account of these problems, but in most cases researchers focus upon standardized data such as the share of military expenditure in GDP or GNP. Developing countries may also differ in the way in which the treat or define military related aid, the fungibility of aid, and the way in which arms sales are financed.¹⁴

Bearing these data problems in mind the most striking features of the world military expenditure trends is the domination of the superpower arms race, with NATO and WTO accounting for 78%

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¹² Ibid

¹³Heston, Alan & Bettina Atena, 1993. 'Real World Military Expenditures', Chapter 19 in Brauer and Chatterji, (eds) 1993. op

¹⁴Brzoska, Michael, 1994. 'The Financing Factor in Military Trade', Defense and Peace Economics, vol. 5, pp. 67-80. See also Deger Saadet & SomnathSen, 1990. 'Military Security and the Economy: Defense Expenditure in India and Pakistan', in Hartley and Sandler, (eds), op cit, pp. 189-227.

of world expenditure in 1981 and superpower involvement in local conflicts leading to higher expenditure in other countries. Between 1960 and 1987 military expenditures by developing countries grew three times as fast as those of the industrial countries, with very little concern shown internationally. Superpower military and military related aid and their direct involvement in conflicts, the search for export markets by the major arms producers and a number of regional conflicts and instabilities fuelled this growth. Porter¹⁵ suggested that there were four "stylized facts" of the contemporary development process up to 1980:

- a) Military Expenditure had risen as a fraction of GDP.
- **b)** Capital cost component was rising relative to operational component.
- c) The proportion of the developing countries' population in the armed forces was rising.
- **d)** Military wages were rising relative to civilian.

Regrettably for Porter¹⁶, when these stylized facts were published things were already changing. The military burden for the developing countries peaked in the mid seventies, then declined and rose again peaking in 1982-3¹⁷. It then declined to 1989, before rising briefly 1989-90 and then continuing the downward trend. World military expenditure peaked in constant prices in 1987 and then declined continuously. The pattern for the developing country differs with the peak occurring in 1982 and with the brief increase in the early 1990s. The overall picture for developing countries does hide some regional differences¹⁸.

¹⁵ Porter, Richard C., 1989. 'Recent Trends in LDC Military Expenditure', World Development, vol. 17, no. 10, pp. 1573-184.

¹⁶ Ibid

¹⁷ Payne, James E & Anandi P Sahu, eds, 1993. Defense Spending and Economic Growth. Boulder Colorado: Westview Press.

¹⁸ Rosh, Robert M, 1988. 'Third World Militarization Security Webs and the States they Ensnare', Journal of Conflict Resolution, vol. 32, no. 4, December, pp. 671-698.

Schmidt and Blackaby ¹⁹ observe that real military expenditure has continued on an increasing trend in South Asia, while declining in Africa and South America. The high growth rates of the South Asian economies have meant, however, that their military burden has not increased. In the Middle East real military expenditure peaked in 1982-3, fell to 1989 and then rose again briefly²⁰. The rise in military as a share of GNP, in the developing world in the early 1990s was in fact is almost entirely the result of these increases in the Middle East.

In the recent UNDP Report²¹ an estimate was made of the savings from the cuts in military expenditure that have been made and are likely to be made. This allows the computation of a cumulative peace dividend. It is estimated that the cumulative "peace dividend" to 1987-94 has been 933 billion dollars of which only 126 billion has been in the developing countries (although weighting by their share of world military spending makes similar to the developed economies)²². Clearly the earlier cuts are also the easiest but there is still considerable potential for further cuts. Assuming an annual reduction of 3%, they estimate a further saving of 459 billion by 2000 with 73 billion in the developing countries²³. While there may be considerable potential for cuts in military expenditure in developing countries, the questions we now have to ask are what are the likely effects of such cuts and if they are positive, what are the preconditions required to make the most of the opportunity presented, for the individual countries? Has the reduction impacted on economic welfare? This study attested to answer the above questions.

¹⁹ Schmidt, Christian & Frank Blackaby, eds, 1987. Peace, Defense and Economic Analysis. London: Macmillan.

²⁰ Payne, James E & Anandi P Sahu, (eds) 1993. Defense Spending and Economic Growth. Boulder Colorado:

²¹UNDP, 1994. 'Capturing the Peace Dividend', Chapter 3 in Human Development Report 1994. United Nations Development Programme. Oxford: Oxford University Press. pp. 47-60.

²³Rosh, Robert M, 1988 op cit.

In 2004, world military expenditures reached \$1 trillion and an average of \$162 per person.²⁴ The United States accounted for nearly half, 47%, of the total. There was a reduction in military spending at the end of the Cold War and the total downward trend culminated in 1998. Since then, there has been an increasing trend; from 2002 to 2004 there was an annual average increase of about 6% in real terms (adjusted for inflation).²⁵

World Military Expenditure, 1995-2004 ©-SIPRI 2005 900 800 Constant (2003) US\$ b. 700 600 500 400 300 200 100 1995 1996 1997 1998 1999 2001 2002 2003 2004 2000 Year

World Military Expenditures - A digest and current inclination

Despite the fact that there was a significant reduction in the world military expenditures at the end of the Cold War, a great part of that decline came from the sharp drop in spending by the former Warsaw Pact nations. The reduction in other developed countries was less notable – only 10% less in 1993 than in 1987. 26 The recent increase is undoing the progress made - the world military expenditures in 2004 were only 6% lower in real terms than at the peak of the Cold War.

²⁴ Current (2005) US dollars

²⁵ Stockholm International Peace Research Institute, "Recent Trends in Military Expenditure," SIPRI Military Expenditures and Arms Production Project.

²⁶ Project on Demilitarization and Democracy, "The Year 2000 Campaign to Redirect World Military Spending to Human Development, Campaign Statement." Presented December 1995.

The biggest factor in the subsequent upward trend has been spending in the United States. Particularly, there has been a rapid increase since 2002 due mainly to the military operations in Iraq and Afghanistan.²⁷

1.5.2 The Correlation between Military Spending and Economic Welfare in Africa.

The nexus between military spending and economic welfare merit discussion at this point if the study is to be understood from the onset. In Africa, it has been very difficult to balance expenditure on military without affecting the welfare of its people. If history is anything to go by, African military expenditures have always been a petite fraction of global outlays for defense. According to the US government World Military Expenditures and Arms Transfers (WMEAT) data published in 1979, all African states less Egypt accounted for only 1.8 per cent of worldwide military spending, and in 1989 the portion had dropped to 1.5 per cent²⁸. Ten years later it had risen slightly, to 2.4 per cent, but a handful of states – the Democratic Republic of the Congo (DRC), Ethiopia, Eritrea and Nigeria – represented most of this recent growth²⁹. In other words, since the 1970s Africa's 50 countries, representing 29 per cent of the nations covered in WMEAT, have accounted for only about 2 per cent of defense outlays worldwide.

Military (Defense) vs. Welfare (Education)

²⁷ Stockholm International Peace Research Institute, "*Recent Trends in Military Expenditure*," World Military Expenditures - an Overview

²⁸US Arms Control and Disarmament Agency (ACDA),(1991) *World Military Expenditures and ArmsTransfers* 1990, US ACDA/US Government Printing Office, Washington, DC, November 1991, p 2.and Arms Transfer 1999-2000, Washington, DC, June2002, pp 2–3.

An increase in defense budget means a reduction in the socio-ecenomic sectors that has a direct influence on the poor majority who depend on government services delivery.



Nonetheless, in Africa – as elsewhere – military expenditure not only competes with other public spending programmes, but also affects the allocation of available public goods and broader socioeconomic conditions. Hence the longstanding research interest in Third World defense spending has been primarily concerned with 'guns versus butter' issues, that is, whether military expenditure helps or hinders economic growth and socioeconomic development³⁰. Not surprisingly, the results are mixed, but most studies have demonstrated that Third World defense spending has either insignificant or somewhat negative effects on growth and socioeconomic performance, and some recent papers have explored linkages between military expenditures and conflict³¹. Yet, despite the controversies and contradictions that continue to be generated – or more accurately, repeated – by yet further studies, clear patterns are emerging across the research results. Using cross national data and a variety of research designs³² several econometric studies have investigated the effect of military spending on economic growth in Africa. These studies generally find that military spending has a negative impact on the growth of GDP in African

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³⁰ Ibid

³¹See N A L Mohammed, (1999) Civil wars and military expenditures: a note, draft paper, 1999, http://econ.worldbank.org/files/13215_Mohammed.pdf> (15 October 2004);

³² See Gyimah-Brempong, Kwabena (1992), "Do African Governments Favor Military in Budgeting?" Journal of Peace Research, 29 (2), 191-206. See also Mohammed, Nadir (1992), "Economic Growth and Military Spending in Sub-Saharan Africa: Bennoit and Joerding Revisited", Journal of African Economies, 2 (2), 145-156. See also Dunne, Paul and N. Mohammed (1995), "Military Spending in Sub-Saharan Africa: Some Evidence for 1967-85", Journal of Peace Research, 32 (3), 331-343. See also Dunne, P. and D. Vougas (1999), "Military Spending and Economic Growth in South Africa: A Causal Analysis", Journal of Conflict Resolution, 43 (4), 521-537.

countries. They found that military spending affected economic growth through reductions in the acquisition of fruitful resources as well as through reduction in the productivity of existing resources for lack of complementary inputs. Most of these studies are based on aggregate national income data.

A cross-sectional analysis of the impact of defense spending on industrialization in twenty-six African states during 1967-1976 was conducted by Nabe. Although he found a positive relationship between GDP manufacturing and social and economic factors of development, there was no direct relationship between defense spending and industrialization. Furthermore, military expenditure exhibited a negative relationship to GDP manufacturing through both social and economic development factors. Ten of eleven analyses showed no significant disparity between milex and development, whereas all analyses showed positive relationships between economic and social development factors and economic development. In short: military expenditure had neither notable positive nor negative effects on economic development.

In spite of this, Looney's work is of particular significance for distinguishing between conflict states and non-conflict states in Africa³⁴. However, rather than using indicators of political violence or armed conflict, his criteria related primarily to government legitimacy and effectiveness. Non-conflict states consistently displayed lower military burden and better socioeconomic performance than conflict states. Interestingly, only in the former category was military spending positively and significantly related to quality of life measures, showing that the

³³ Nabe, O. (1983) Military expenditure and industrialization in Africa, *Journal of Economic Issues* 17(2), pp 575–587.

³⁴ R E Looney, (1995) *The economics of Third World defense expenditures*, JAI Press, Greenwich, Conn and London. p 218.

socioeconomic effects of milex vary with regime characteristics. But even in conflicted states, the relative defense burden produced a mix of positive and negative outcomes for socioeconomic development indicators According to Looney's analysis of external debt with non-conflict states relying more heavily on external public debt to cover military needs while conflict states more typically absorbed military costs internally at the expense of domestic social programmes, the distinction between conflict and non-conflict states also mattered³⁵ Finally, while non-conflict states consistently imported arms in direct proportion to their ability to pay for them, their conflicted counterparts tended to buy weapons without regard to current economic conditions, thereby imposing additional burdens on their people especially during times of austerity. In concluding, he argued that this "demonstrates the futility of attempting to generalize about the costs of military expenditures in the Third World" and in the case of Africa, "the level, composition, and ultimate socio-economic impact of military expenditures are greatly influenced by internal conditions, notable the effectiveness of a government in either meeting or containing the demands of citizens, and the degree to which it can count on them to comply voluntarily with its policies

On the other hand, Gyimah-Brempong, a Ghanaian scholar³⁶, used a sample of thirty-nine African states between 1973–1983, to examine the effects of an increased defense load on GDP growth rate, the mechanisms by which milex affected economic growth, and whether it influenced economic growth directly and independently. His results indicated that defense spending affected economic growth through its effects on investment rate and skilled labor

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³⁵ Ibid

³⁶Gyimah-Brempong, (1989) Defense spending and economic growth in sub-Saharan Africa: An econometric investigation, *Journal of Peace Research* 26(1), 1989, p 88. See also N A L Mohammed, Defense spending and economic growth in sub-Saharan Africa: Comment on Gyimah- Brempong, *Journal of Peace Research* 30(1), 1993, pp 95–99, which includes a reply by Gyimah- and a rejoinder by Mohammed.

supply to the civilian sector, military spending did not have any significant direct effect on economic growth, and overall, the effects of the defense burden on economic growth are "significantly negative". In a later study Brempong, this time with a sample of forty African states between 1967–1987, found a weird pattern in which governments in every geographical region, and regardless of their oil-exporting or-importing status, tended to reduce defense spending when overall budget resources were increasing and escalating military spending in times of austerity. When constrained, such spending raised the defense burden which governments and their citizens were least able to afford it.³⁷

Approaching the matter differently, Mbaku investigated relationships among democracy, military spending, and economic growth in Africa during the 1980s. He found that democracy fostered growth, but defense spending retarded it. In other words, the military has larger claims on resources in dictatorships (both military and civilian), which frustrates economic development³⁸. For Mbaku despotism in governments called for more resources on defense in order to suppress internal opposition and oppress its citizen not to question the government in power.

Other Scholars who contributed to the literature related to military and Economic growth include Dunne and Mohammed. The two scholars jointly studied the determinants and effects of defense expenditure on a sample of thirteen (hypothetically) comparatively homogenous sub-Saharan countries during 1967- 1985³⁹. Analyzing this group of countries as a whole, using different

³⁷Gyimah-Brempong, Do African governments favor defense in budgeting? *Journal of Peace Research* 29(2), 1992,

pp 191–206. ³⁸M Mbaku, Political democracy, military expenditures and economic growth in Africa, *Scandinavian Journal of* Development Alternatives 12(1), 1993, pp 49–64.

³⁹J P Dunne & N A L Mohammed, Military spending in sub-Saharan Africa: Some evidence for 1967–85, *Journal of* Peace Research 32(3), 1995, pp 331–343.

statistical techniques, they found no indication that military spending had positive economic effects, but both aggregate and individual country results showed substantial negative impacts, especially on growth, trade balance and investment. In their literature examination on the impact of African military spending on economic growth and development, Mohammed and Thisen⁴⁰ reviewed studies that found both positive and negative direct effects, but the overall impact was negative when indirect effects on human resources, investment, and foreign trade balance were included; no studies reported uniform or overall positive effect on economic growth. Their own modest statistical test involving twenty-three African countries for which consistent data were available for 1970–1991 also produced mixed results; 44 per cent of the sample experiencing negative impacts and 30 per cent experiencing inconsequential effects. In addition, countries with high and rising military expenditure incurred substantial economic costs, those with moderate military burdens had insignificant effects, and countries with low military burdens enjoyed overall positive effects.

Another review of the African literature was by Olaniyi who generated the sweeping judgment that "the conflicting theoretical conclusions and empirical results suggest that the demand and supply of military spending depend on and generate a complex web of sometimes opposing relations among various economic and non-economic variables within an economy⁴¹. The direction and magnitude of these relationships depend on divers' endogenous and exogenous factors that generate primary and secondary effects contingent on the historical realities of each

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⁴⁰N A L Mohammed & J K Thisen, The economics of disarmament in Africa, in Gleditsch et al, *The peace dividend*, op cit, pp 359–380.

op cit, pp 359–380.

⁴¹O Olaniyi, (2002) Military spending and economic development in sub-Saharan Africa: A supply-side analysis, in J Brauer& J P Dunne (eds), *Arming the South*, Palgrave, Basingstoke and New York, 2002, pp 275–289.

country."42 He went on to apply a supply side model to 25 African countries 1993–1994. distinguishing between substitution and externality effects of defense spending, and between agricultural economies and industrializing/mineral-exporting economies. The results showed that defense outlays had negative but statistically insignificant effects on economic growth regardless of a country's economic basis. In addition to the cross-national studies cited above, several empirical case studies have been conducted. Not surprisingly, South Africa has attracted the lion's share of the attention. McMillan's statistical analysis of the relationship between economic growth and defense spending in South Africa during 1950–1985 produced a mix of positive and negative effects 43. A few years later Roux used a four-equation model to analyze the effects of milex on South African economic growth 1960-1990. He also found mixed results, but overall the military burden negatively affected economic growth 44. Even more emphatic are the results obtained by Dunne and Vougas, who used causality techniques that recognize the long-term relationship (co-integration) between military spending and economic growth. Their work revealed that defense spending had a "significant negative impact" on economic growth in South Africa during 1964–1996⁴⁵. Finally, Birdi and Dunne, after reviewing the various models and results embodied in the literature on milex and growth in South Africa, used co integrating vector autoregressive (VAR) techniques to obtain, yet again, mixed results, consistent with several other reports showing that milex, on balance, had somewhat negative or insignificant effects on growth⁴⁶.

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⁴² Ibid

⁴³S M McMillan, Economic growth and military spending in South Africa, *International Interactions* 18(1), 1992, pp 35–50.

⁴⁴A Roux, Defense expenditure and economic growth in South Africa, *Journal of Studies in Economics and Econometrics* 20(1), 1996, pp 19–34.

⁴⁵P Dunne & D Vougas, Military spending and economic growth in South Africa: A causal analysis, *Journal of Conflict Resolution* 43(4), 1999, pp 521–537.

⁴⁶A Birdi& J P Dunne, South Africa: An econometric analysis of military spending and economic growth, in Brauer& Dunne, op cit, pp 221–233.

To conclude, in another African empirical case study, Oyinlola's econometric analysis of Nigerian defense spending also yielded mixed outcomes. More precisely, he concluded that "the Nigerian defense sector contributes positively to real growth in gross domestic product; it has a progressive distributional effect and a dampening effect on inflation. However its impact in these respects is very low and insignificant. On the contrary, the impact on importation where defense has a negative effect on the economy is significant."⁴⁷ It is therefore fair to conclude that the net economic impact of military spending in Nigeria has been negative.

At this juncture it is clear that the available literature is confusing and bewildering, as after the above contradicting findings by different scholars, we have so many questions lingering in our minds. One of the most Paramount questions leads us to ask ourselves; is there any correlation between military spending and economic welfare? As we try to touch base with the study, we find ourselves again in another curiosity question that: Will the Ethiopian case yield different findings? Thus the study tended to interrogate these issues in details. Before proceeding to summarize and draw some implications from our review and analysis of the empirical literature, we need to digress momentarily from the central question of this paper by asking not how defense spending affects development, but to pose a prior question: What determines levels and patterns of military spending in the Third World and Africa? The answer turns out to be straightforward. The declared purpose of armed forces is to provide security, so it is not

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⁴⁷O Oyinlola, Nigeria's national defense spending and economic development: An impact analysis, *Scandinavian Journal of Development Alternatives* 12(2–3), 1993, p 250.

surprising that McKinley found that security and military-related factors determined Third World military spending⁴⁸.

A similar trend seems to be true of Africa, as shown by Dowdle in his Political and Military Sociology Journal; "A cross-national model of military spending in African nations⁴⁹. In this region, milex varied in accordance with the nature and immediacy of perceived security threats to the regime and state, and internal security threats (particularly civil war) drove up defense allocations more than actual and potential external threats⁵⁰. Likewise, Mohammed investigated the determinants of military spending in 13 sub-Saharan states from the mid-1960s through mid-1980s, using time series, cross-section, and pooled cross-section analyses of several political, military, and economic factors. He too found that security-related political and military factors were the major determinants of military spending, with economic conditions (especially resource constraints) accounting for most of the variations across countries⁵¹. For a better vivid understanding of our research study let's now review the economic situation of our case study.

1.5.3 The monetary situation ever since the Imperial period 1.5.3.1 Introduction

Looking at the long historical events that Ethiopia has gone through, one can easily conclude that; its past has predominantly been a history of physical and structural violence or conflicts under the ideology of religion, region, nationality or a combination of these but basically aimed at power and resource control. This had many consequences. To begin with, it created a serious

⁴⁸R D McKinlay, (1989) Third World military expenditure: Determinants and implications, Pinter, London & New

⁴⁹A Dowdle, A cross-national model of military spending in African nations, *Journal of Political and Military* Sociology 20(1), 1992, pp 153–169.

⁵⁰N A L Mohammed, Determinants of military expenditures in sub-Saharan Africa, *Ethiopian Journal of Economics* 2(2), 1993, pp 87–126. ⁵¹ Ibid

crisis in the agricultural sector⁵². Secondly, two clearly distinct antagonistic interest groups have characterized Ethiopia's history before the 1974 revolution: the landed gentry (including the church) and the peasantry, with corresponding state structures⁵³. The main preoccupation of the landed aristocracy and the church has been to maintain their power and privileges which are intimately linked with land ownership. Thus, land was (and still is) a very contestable and important resource. Thirdly, to some degree colonialism in the rest of Africa had made Ethiopian independence basically a besieged one, because hostile and powerful colonial forces encircled it. As a result Ethiopia developed as a militaristic state, with a dependent economy based on the export of commodities and import of manufactures - in particular fire arms⁵⁴.

Giving an assessment through observation of the effect of conflict in historic Ethiopia, Gebre-Hiwot⁵⁵ noted that the major internal constraint to Ethiopia's development is *war/conflict*. He also made an overt link between this elemental constraint and inter and intra ethno-linguistic group (what he calls *Neged*) conflict. According to Gebre-Hiwot, conflict occurs in each ethno linguistic / regional group (*Neged*). Peasants in each of such groups are squeezed through tax levy and surplus extraction by their own influential ruling group. This process pushes peasants away from their earlier settlement (purportedly fertile land) into marginal land - leading them to confront other peasant groups of another ethno-linguistic group (*Neged*). This culminates in

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⁵² Haile Kebret (1997) 'Military Expenditures And Economic Performance: Lessons From The Ethiopian Economy', *Ethiopian Journal of Economic*, 6(1).

⁵³GetahunGebru (1992) 'Issues of Human Resource Development in Ethiopia: With Particular Reference to Education' in MekonenTaddesse (eds.). *The Ethiopian Economy: Structure, Problems and Policy Issues* (EEA & Department of Economics of AAU).

⁵⁴AlemayehuGeda (2002a). Finance and Trade in Africa: Macroeconomic Response in the World Economy Context. London: Macmillan-Pallgrave.

⁵⁵Gebre-Hiwot as cited in Haile Kebret (1997) 'Military Expenditures And Economic Performance: Lessons From The Ethiopian Economy', *Ethiopian Journal of Economic*, 6(1).

conflict, which perpetuates the internal constraint⁵⁶. The fight for survival becomes inevitable since scarce resources like fertile land are made scarcer by the ruling elite. It's imperative to understand that Gebre-Hiwot's observation was authenticated by European travelers and historians in 19th century. Pankhrust⁵⁷ for instance, citing a British consul named Walter Plowden in his journal "The Ethiopian Army of Former Times", Ethiopian Observer, noted that by 1853 the regular armies of men assembled under chiefs reached about 200, 000 with a system that rendered a large following, estimated to be about half a million. This observer noted that there existed a constant antagonism between the military and the population since the wage being irregular and limited, the armed forces indemnified themselves often by indiscriminate plunder.

As illustrated by Pankhrust, a constant and continuous fighting not only made the virtual emergence of permanent army but also exaggerated the size of these armed forces. ⁵⁸ In the early 19th century, and in conformity with Gebre-Hiwot's observation, another scholar named Wylde wrote that the soldiery which had originally been called in existence because the country had been 'surrounded by Mohamedian enemies' had 'little by little' increased and multiplied till they had become 'out of proportion to the wants of a peaceful country' ⁵⁹. By late 19th and early 20th century each emperor is estimated to have 100 to 225,000 soldiers (e.g. Emperor Yohannes (1872-89) about 196,000 and Emperor Menilek II (1889-1913) 100 to 120,000) ⁶⁰

⁵⁶Alemayehu, 2000a op cit

⁵⁷ Pankhurst, Richard (1963a) 'The Ethiopian Army of Former Times', *Ethiopian Observer*, 2(2): 118-142.

⁵⁸ Ibid

⁵⁹ Ibid p.119

⁶⁰ Pankhurst, Richard (1968). *Economic History of Ethiopia, Volume II*. Addis Ababa: Haile-Selassie University Press.

In spite of the above, pankhrust came up with yet another excellent study, this time he noted that the history of Ethiopia needs to account for the economic and social consequence of war, which was not strange at all ⁶¹. These effects included: the bloodshed of combatants and depopulation, the ravage of fertile land, the butchering of flocks of cattle, the destruction of towns and villages, and the interruption of internal and external trade. Such destruction led not only to famine but also to general insecurity (with its adverse impact on agriculture and accumulation) that deterred division of labour and productive economic activity⁶².

For Plowden, his conclusion was that the peasant had to bear directly or indirectly the whole burden of taxation from the large standing armies⁶³. A British traveler called Parkyn, summarized it best a century and half a go saying that civil war was 'the perpetual scourge of Abyssinia [Ethiopia] and the principal cause of its poverty and backwardness⁶⁴. This internal conflict was goaded by foreign aggressions which were not unusual either (three times with the Egyptians, four times with Dervishes, five times with Italians and once with British over the period 1868 to 1896)⁶⁵. These external conflicts are equally responsible for the backwardness of the country. Most importantly these conflicts have created a militaristic state with accompanying institutional set-up that is detrimental for economic development and might perhaps inform the current socio-political set-up of the country.

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⁶¹ Pankhurst, Richard (1963b) 'The Effect of War in Ethiopian History', *Ethiopian Observer*, 2(2): 142-162.

⁶² Ibid p. 143

⁶³Plowden as cited in Pankhurst, Richard (1963b) 'The Effect of War in Ethiopian History', *Ethiopian Observer*, 2(2): 142-162.

⁶⁴Perkins, D. and M. Roemer (1994) 'Differing Endowments and Historical Legacies', in D. L. Lindauer and M. Romere (eds.). *African and Asia: Legacies and Opportunities in Development*. San Francisco: ICS Press.

⁶⁵BahruZewde (2002). A History of Modern Ethiopia: 1855-1991, 2nd edition. Oxford: James Currey.

Consequently, we can say that; economic performance in Ethiopia is highly correlated with both structural and physical conflict and the political process that accompanies it. Ethiopia's history is full of conflicts, drastic policy changes and reversals. Such political processes do also influence economic agents' behavior. As a continuation of this historic legacy, the last four decades witnessed three distinct regimes described below. Such cyclical political process and regime shifts are not only unpredictable but also violent. Economic insecurity pervades the system as rule of law, enforcement of contracts and property right economic performance has to be obvious. It is within this broader framework that the three regimes outlined below need to be understood.

1.5.3.2 The Imperial Regime (1930-1974).

This can also be referred as regal or majestic rule. The period referred here as the 'Imperial Regime' refers to reign of the last emperor, emperor Haile-Sellasie I, (1930-1974). Although this period is a continuation of the historic process described above, it has also its peculiarities. It is during this period that an attempt to modernize the country was made (an expansion of modern schools and health facilities, the first constitution, infrastructural development, the beginning of medium term planning etc are cases in point)⁶⁶. Like that of historic Ethiopia, the contestable

resource during the Imperial regime had been land and the military power to control land and other resources⁶⁷. The labour relations were very much determined by the structure of the land market. Land was the economic basis of the ruling aristocracy with the emperor being at the top. The majority of

rural households were fundamentally tenants living under abysmal condition. Notwithstanding

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⁶⁶ Pankhurst, Richard (1968). *Economic History of Ethiopia, Volume II*. Addis Ababa: Haile-Selassie University Press.

⁶⁷ Ibid

such structure which reduced the majority of peasants to poverty, the Imperial regime had also the positive record of modernizing the economy by developing infrastructure, establishing and imports substituting industries, modern political system and in particular expansion of education. Slowly the land aristocracy was also in the process of changing itself into productive landlord group by expanding commercial farms. In terms of policy the Imperial regime pursued a market



based economic policies and growth performance during the last two decades of that said period, for which the data we have, from(1960-1974) period, for which the data we have, from(1960-1974) was an average of four percent per annum (the per capita growth being 1.5 percent). The activities of the landed aristocracy as well as modern entrepreneurs to engage in the modernization of the economy which accentuated the conflict between the peasant and the new operators.

By late 1960s a new educated elite started to challenge the political system by articulating the misery under which the majority of the rural population live. This has been encapsulated by the slogan: 'land for the tiller'. As noted by Clapham⁶⁸ the root cause of the downfall of the Imperial regime (and his last emperor, Haile-Sellasie I), and hence the birth of the 1974 revolution are structural than personal. These structural factors include the misery the system caused on the majority of the rural population, who were basically in the state of serfdom; and the government's alienation from all social strata such as the intelligentsia, the military, the bureaucracy, and urban dwellers⁶⁹. Although this are the fundamental factors, the immediate causes for the revolution can be linked to: (a) the famine in Northern Ethiopia (*Wello*), which the government attempted to hide, (b) the strike by taxi drivers following the 1974 OPEC-induced

⁶⁸Clapham, Christopher (1988) *Transformation and Continuity in Revolutionary Ethiopia*. Cambridge: Cambridge University Press.

⁶⁹ Ibid pp 19-40

oil crisis and (c) a revised curriculum of education which was strongly opposed by the intelligentsia (the educated elite). Perhaps, awakened by an early unsuccessful coup in 1960, the military toppled the emperor in 1974 and declared 'socialism' subsequently. This political change and upheaval had its negative effect on economic welfare. The economy started to decelerate below 2% in 1966-74 – the eve of the 1974 revolution.



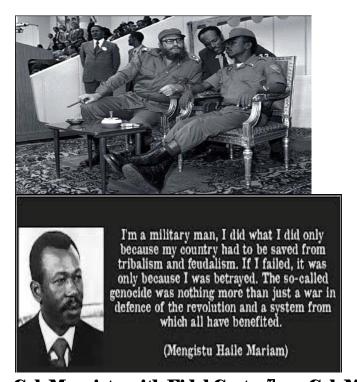
Emperor Sellassie on his royal duties on different occasions before he was toppled.

A decisive analysis of economic welfare situation during the imperial regime clearly reflects the efforts that were made to uplift the economic welfare of the people. The imperial period witnessed huge investment in infrastructure that allowed the easy movement of factors of production. The resultant effect was the uplifting of the economic welfare of the people. This scenario contributed to building of schools that boosted the literacy level, building of healthcare system that improved general health of the Ethiopian citizenry. It's noteworthy that the upsurge in industrialization provided job opportunities to many people thus they were able to sustain their wellbeing. The imperial regime also was a period where the age-old feudal aristocrat group was in the process of changing to a nascent entrepreneur class mainly by investing on capital-intensive commercial farms. Moreover, the urban areas witnessed the flourishing of food-

processing industries. This economic transformation was a boost to human security end economical welfare of the people in Ethiopia⁷⁰.

1.5.3.3 The Second Period (1974-1991): The Socialist Regime.

The gradient to supremacy of the military regime (the *Derg*) and its political survival was largely hanging on the position that it would resolve on the land question. Thus, the most important policy of the *Derg* came to be the nationalization of land and other private property (land, extra houses, and manufacturing & financial firms). The *Derg* also adopted the socialist ideology, which basically was the ideology of the Ethiopian educated elite of the period. The cold war (where US's ally has been neighboring Somalia) had also its share of influence in the choice of this ideology which was supported by the USSR.



Col. Mengistu with Fidel Castroⁿ

Col. Mengistu H. Mariam on war excuse⁷²

⁷⁰G ebre-Hiwot as cited in Haile Kebret (1997) 'Military Expenditures and Economic Performance: Lessons From The Ethiopian Economy', *Ethiopian Journal of Economic*, 6(1).

⁷¹ Izqoutes.com

The Derg started to emerge as an interest group and started to consolidate its grip on power through setting up institutions (peasant association and cooperatives, marketing boards, huge military, nationwide worker's party and the like) aimed at building a socialist state (control regime) with strong military. The military was core to the survival of the regime thus a lot of money was spent to revamp the military with sophisticated artillery and military training. For instance in 1977 the regime in Ethiopia massive military purchase of about U.S.\$1 billion worth of weapons, including hundreds of tanks, armored vehicles, combat aircraft, helicopters, surfaceto air missiles, diverse artillery items as well as light weapons. 73 It also involved the launching of a control satellite, and the strengthening of the Ethiopian forces by as far as 1,500 foreign advisors and thousands of military personnel.⁷⁴ Lured by this strategic military plan, the regime stepped up its military prowess by purchasing weapons estimated at US \$ 2 billion. By 1984, the regime had spent more than US \$ 4 billion in military building, with weapons' deliveries in 1984 worth approximately US \$ 1.4 billion. In part because of this deluge of weapons, the regime also intensified its training efforts. To this end, there were 1,900 military advisors in 1981, 2,600 in 1984, 1,400 in 1988 and 1,700 in 1989⁷⁵ (DOA, 1991). The regime had emphasized training the military personnel of three services in the operation and maintenance of weapon systems as well as in military tactics and doctrine. In addition, by 1984, more than 1,600 Ethiopian military personnel had been trained in the Soviet Union (trained at the Moscow's Frunze Academy or the Leningrad Naval Academy)⁷⁶.

⁷² Tiglachin, Yeethiopia Hezeb Abyotawi Yetegel Tarik, (or Our Revolution, The History of Ethiopian People's Revolution) Tsehay Publisher.

⁷³Porter, Bruce (1984) "The Ogaden War." Chapter 9. The USSR in Third World Conflicts Soviet Arms and Diplomacy in Local Wars 1945-1980. Cambridge: Cambridge University Press.

⁷⁴Ayoob, Mohammed (1980) "The Horn of Africa." In Conflict and Intervention in the Third World, edited by Mohammed Ayoob. London: Croom Helm.

⁷⁵DOA [Department of the Army] (1991) Ethiopia: A Country Study. Electronic Version. Washington D.C.: Library of Congress.

⁷⁶ Ibid

Meanwhile, there was growing number of opposition groups among the intelligentsia that had the objective of overthrowing the *Derg* (namely, *Meison*, EPRP, TPLF, EPLF9). These groups differ in their origins; leadership, ethnic balance, goals and tactics, and attitude to the *Derg*⁷⁷. For instance, the EPLF and TPLF were active in their home region in the North. They pursued a strategy of rural insurgency with declared intent to secede, using regional/ethnic ideology as their instrument.

On the other hand, *Meison* and EPRP were multi-ethnic organizations. They based their operation across the country, but were active in the capital. *Meison* differs from others in its strategy of 'working with the *Derg*' with the incipient plan of eventually taking power from the *Derg*. Almost all of these protagonists draw their members from the youth, especially of

university students both at home and abroad, as well as from trade unions. The *Derg* managed to wipe out most of these organizations, except the TPLF and EPLF, who eventually toppled it in 1991. Ideology as a source of conflicts seems less appealing to explain the conflict (and hence the protracted civil war during 1974-1991) among these groups. This is because all were Marxists organizations. Although grievances over the Mengistu Haile Mariam cultural /linguistic domination by Amharic speakers over the

others have some explanatory power for those from the periphery of the country, the

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⁷⁷Clapham, 1988 op cit

fundamental conflict is conflict over power and resource control among the educated elite. In the case of ethno-linguistic groups, ethnicism is used as a convenient ideology in this struggle⁷⁸.

The financial implications of the regime change and its subsequent political turmoil were devastating. The sudden political change, the nationalization of the productive assets and the inability of the new owners to run them, the disruption in both industrial and agricultural activity following the revolution, the 1984/85 drought, have all shown themselves through the deceleration of economy. Between 1974/75 –1989/90 growth decelerated to 2.3 percent (the per capita growth being -0.4 percent)⁷⁹. Monetary episodes were also extremely irregular for they depended on agricultural growth, which in turn was exposed to the vagaries of nature⁸⁰. The conflict during the period was not only detrimental to long term growth but also costly. For instance defense budget alone was above 40 percent of the total recurrent spending or 26.1 percent of GDP in the late 80s (rising from its level of 15 percent of GDP in mid 70s).



We fought them when they sought to dismember the nation. Is this why I should seek exoneration?

(Mengistu Haile Mariam)



I am a revolutionary; my life is dedicated to freeing the people.

(Mengistu Haile Mariam)

Lt. Col. Mengistu and his socialist agenda: Anybody who wished to dismember Ethiopia from Communism became an enemy⁸¹. At the background; Cuban president Fidel Castro greets Ethiopians in Addis Ababa during his state visit.

Moreover, the *Derg* was basically a controlled regime (as are 'socialist' economies). It designed discriminatory polices (both monetary and fiscal) aimed at benefiting the socialized and

⁸¹ Izqoutes.com: The Socialist Ideological agenda and its justification on the Ethiopian people.

⁷⁸AlemayehuGeda (2004) 'Does Conflict Explain Ethiopia's Backwardness? Yes and Significantly (Paper Presented at WIDER Conference on Making Peace Work, June 2004).

⁷⁹Barro, R. (1991) 'Economic Growth in Cross-Section Countries', *Quarterly Journal of Economics*, 106(2):407-443.

⁸⁰ Alemayehu2003 a op cit

penalizing the private sector. Thus, apart from the deceleration of growth throughout the period, the period witnessed deteriorating economic structure, discontent of people towards the regime, strong resistance from rebel forces across the country (increasingly taking ethnic form) and external economic strangulation. This is compounded by military failure in various pockets, especially in the North, of the country. As a result the regime was finally toppled by the coalition of rebel forces organized along ethno-linguistic lines (the Ethiopian People Revolutionary Democratic Front or the EPRDF) in 1991.

This part has revealed that cost-effective welfare situation in Ethiopia during the period under review is generally disappointing, especially when it is placed in the context of other developing countries. This growth, however, varied across the three regimes, the *Derg* regime's performance being the worst. Growth performance under the three regimes that ruled the country in the last four decades shows that GDP growth was the highest during the imperial era (averaging 4 per cent and 1.5 per cent per capita), declined during the Military regime of 1974-91 (2.3 per cent and -0.4 per cent per capita)⁸². Total factor productivity growth was negative under all the three regimes, with the Military era scoring the lowest.

Examination of determinants of economic performance shows that the major factors behind the poor growth performance were vagaries of nature (in the form of rain or drought), international commodity prices, bad policies and risk related to war and insecurity. Most of these factors are in turn mediated and transmitted through institutions, which are used to effect policies that, by and large, reflect the interest of the ruling group in each regime⁸³. Competition for power and resources among such interest groups has led to conflict, which is invariably resolved in a violent

⁸² Barro, R. (1991) Op cit

⁸³ Plowden as cited in Pankhurst, Richard (1963b) 'The Effect of War in Ethiopian History', *Ethiopian Observer*, 2(2): 142-162.

way. In this, *Derg* regime is found to be characterized with policies aimed at regional-cum-ethnic distribution of income. This had a negative bearing on growth performances. This is in turn motivated by lack of development in product and factor (including money, land and labor) markets, as well as the response of economic agents to such complex factors as policy-induced risk.

1.6 Theoretical Framework of the Economic of Military Spending.

It is now common for researchers to explain their research using theories or conceptual framework. To conduct any academic scientific study, it is necessary to have a theory, even though this may not of itself be demonstrable. For research on the economic effects of military spending on economic welfare this is complicated by the fact that much of economic theory does not have an explicit role for military spending as a distinctive economic activity. However, this has not prevented the development of theoretical analyses, with three basic positions being adopted in the literature on both developed and developing countries. One of the theoretical strands that can be used to understand the impact of military spending on economic welfare is the Neo-classical theory.

Neoclassical realism naturally gives pride of place to the material distribution of power in the international system as the principle source of explanatory power for long-term foreign policy outcomes. As a branch from the realist IR theoretical tree, neoclassical realism shares nearly all the core assumptions of realist theory. States are the principle actors in an international system marked by a lack of any global authority, thus global politics is characterized by a condition of anarchy.

Within this system, states seek to ensure their own survival through the pursuit of power, which realists generally measure in terms of a state's material capabilities. While various branches of realist theory make different causal claims about why states pursue power, neoclassical realists generally seem to accept some form of the "security dilemma", which maintains that acquiring power to ensure state survival causes concern in other states that are then motivated to increase their power base, a pattern which causes a circular upward spiral. In effect, as one state increases its security, it decreases the security of other states. In realist theory, including neoclassical, relative power relationships are therefore of crucial importance⁸⁴.

On the contrary, one "core" realist assumption does not seem to be present in most neoclassical realist theory: that of states acting as unitary rational actors. While some neoclassical realists might find this rationality assumption consistent with their theoretical models, others seem to conveniently ignore this important component of realist theory. For neoclassical realists such as Brian Rathbun, a domestic intervening variable simply explains variance in outcomes that do not adhere to the predictions of structural realism. The decision making processes in states that otherwise would occur rationally and in accordance to the precepts of structural realism are influenced negatively by domestic factors, and act contrary to the demands of the international system.

In this way, some view neoclassical realism as a "theory of mistakes"⁸⁵. Randall Schweller in particular views neoclassical realism this way, arguing that states rarely balance each other as structural realism predicts precisely because "states rarely conform to realism's assumptions of

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⁸⁴ For two summaries of realism, see John Mearsheimer, *The Tragedy of Great Power Politics*, 2001, pp. 17-24. and Chistopher Layne. *The Peace of Illusions* (Ithica: Cornell Press, 2006), p.15-17.

⁸⁵ Brian Rathbun (2008). "A Rose by any other Name: Neoclassical Realism as the Logical and Necessary Extension of Structural Realism", *Security Studies*, nr 17 (294-321).

units as coherent actors. The closer the policymaking process and actual state-societal relations approximate a unitary actor, the more accurate realism's predictions"⁸⁶. This constitutes perhaps the weakest form of neoclassical realism and that with the closest ties to structural realism. Scholars such as Schweller, Rathbun and Colin Dueck fall into this category – they retain the aspirations of general theory while others might accurately be placed within the realm of middle range theory, to be discussed below.

1.6.1 Domestic variables: Elucidation and procedures.

Other neoclassical realists break more decisively with structural realism with the inclusion of domestic factors as part of the causal chain in their analyses. Aaron Friedberg captured this quite succinctly by observing that "structural considerations provide a useful point from which to begin analysis of international politics rather than a place at which to end it"⁸⁷. In a seminal 1998 article, Gideon Rose laid out the framework for neoclassical realism, paying particular attention to two groups of domestic factors that might influence state behavior: decision maker's perspectives and domestic decision making processes.

While the international system exerts pressures and creates incentives for states, these elements are observed, interpreted and acted upon by "flesh and blood officials" rather than automated black boxes. Friedberg questioned structural realism's assumption that "assessment [of relative power] through rational calculation plays the part of a reliable but invisible transmission belt connecting objective [material] change to adaptive behavior". Rose writes of how systemic

⁸⁶ Randall Schweller (2006). Unanswered Threats: Political Constraints on the Balance of Power. Princeton: Princeton University Press.

⁸⁷ Gideon Rose (1998). "Neoclassical Realism and theories of Foreign Policy", World Politics 51, pp. 144-72.

factors instead must be "filtered"; neoclassical realists believe that the idea of a "smoothly functioning mechanical transmission belt is inaccurate and misleading". In analyzing the foreign policy of the Bush administration, Jonathan Monten argues that "under conditions of incomplete information, the strategies actors select to achieve their preferences depend on the expectations, or causal beliefs, about the effects of their actions." He goes on to argue that

The international political environment presents leading states with competing, cross-cutting incentives and opportunities; grand strategic beliefs determine which set of international incentives policymakers perceive and respond to, and suggest why actors with different beliefs may respond to the same international conditions differently. Policy ideas, often associated with logics of appropriateness, determine which consequentiality logic...will be operative in explaining political choice⁸⁸. On this point, Rathbun draws a distinction between cognitivism and constructivism. Neoclassical realists maintain that cognitive challenges in understanding and interpreting power relationships: states act according to their "perceptions of power rather than the true distribution. This is not because social reality has no meaning absent norms and identities but because power calculation is a complicated business" (Rathbun 2008:316).

The other broad group of internal factors important to neoclassical realists, according to Rose, includes domestic political structures and decision making processes. A state may harbor the sources of material power, he argued, but an "international power analysis must take into account the ability of governments to extract and direct the resources of their societies" (Rose 1998:161). Much as structural realists see a sort of conveyor belt linking structural conditions directly to foreign policy outcomes, neoclassical realists see another type of belt: one where "complex

⁸⁸ Jonathan Monten (2007). "Primacy and Grand Strategic Beliefs in US Unilateralism", *Global Governance* 13 119-138

domestic political processes act as transmission belts that channel, mediate, and (re)direct policy outputs in response to external forces (primarily, changes in relative power)" (Schweller 2006:6).

Schweller identified four unit-level factors that influence a state's foreign policy outcomes. First, the level of elite consensus on "preferences and perceptions of the external environment" is crucial, especially regarding threat analysis. Second, the nature of those specific influential elites who actually matter in the decision making process also affects policy outcomes. Third, Schweller argues that outcomes can be linked to the "domestic political risks associated with certain foreign policy choices". Last but not least, the "risk-taking propensities of state elites" can also manipulate foreign policy outcomes (Schweller 2006:46). These factors are closely related to internal political structures that causally connect elites' understanding of the system to actual policy outcomes, and for the US may include policy making structures such as the National Security Council, the Policy Planning offices within the Departments of State and Defense, Congressional committee structures and voting procedures, public electoral processes and pressures, and the role of public opinion in shaping foreign policy.

In his neoclassical realist analysis of US grand strategy, Colin Dueck paid particular attention to Schweller's final two categories and linked them to a discussion of US strategic culture. For Dueck, American strategic culture has two main ingredients he has labeled "liberalism" and "limited liability". As he described it, the classic liberal creed has long historical roots and "emphasizes individual freedom, equality of right, majority rule, progress, enterprise, the rule of law, and the strict limits of the state".

⁸⁹ Colin Dueck (2006). *Reluctant Crusaders*. Princeton: Princeton University Press, 2006.pg21.

The endorsement of these principles within the international system has always played an integral role in US strategy, but the means by which liberalism is endorsed has varied between active crusading abroad and disconnected promote-through-example tactics. The other ingredient in US strategic culture, according to Dueck, is a "culturally shaped preference for avoiding costs and commitments", especially in relation to normally ambitious US strategic goals⁹⁰. In line with Schweller, Dueck views these cultural factors as a supplement to realism for understanding "deviations from balancing behavior", but since this presumes an "appropriate or expected response to international conditions, it is only within a realist framework that such explanations make any sense".

1.6.2 Neoclassical realism and the midrange theory

Gideon Rose employs a distinction made by the philosopher Isaiah Berlin by reflecting on the place of neoclassical realism in relation to more established structural realist theory. Realism is a hedgehog, he argues, because it knows one big thing: that system level forces and relative power shape the behaviour of states, an indisputably important insight⁹¹. Limiting analyses just to the systemic level, however, makes "explaining most of what happens in international relations" quite difficult. Neoclassical realism, on the other hand, may be seen as a fox who knows many small things. By sacrificing the sweeping generalizations of system level theory, neoclassical realists are 'in the trenches' of policy formation at the unit level, examining the causal connections that translate systemic power relations to foreign policy outcomes. But is this an IR theory at all? Neoclassical realism appears to provide an easy answer for when structural realism gets it wrong. In searching for reasons why states fail to conform to its predictions, realists can

⁹⁰ Ibid pg 26

⁹¹ Hans J. Morgenthau Politics among Nations: The Struggle for Power and Peace, first published in 1948,,

simply point to domestic factors to explain variance. In this manner, neoclassical realism is non-falsifiable in a Popperian sense: the theory can account for any possible foreign policy outcome. But does the ability to make any precise predictions in the way structural realism can, actually matter? Supporters, as Rose points out, might concede the point, but set their ambitions lower by arguing that "its very looseness...makes it a useful framework for carrying out the kind of midrange theorizing that is so often the best social science can hope for" (Rose 1998: 168).

The neoclassical approach sees the state as a rational actor which balances the opportunity costs and security benefits of military spending in order to maximize a well defined national interest reflected in a societal social welfare function⁹². Military expenditure can then be treated as a pure public good and the economic effects of military expenditure are determined by its opportunity cost, with a clear trade off between civil and military spending. This approach readily allows consistent formal theoretical models to be developed to inform empirical work and has had a major influence on the literature. It can, however, be criticized for being a historic, always able to justify observed actions, concentrating on the supply side, ignoring the internal role of the military and military interests, implying a national consensus and requiring extreme knowledge and unrealistic computational abilities of the rational actors. ⁹³

The most influential neoclassical model is the Feder-Ram model⁹⁴ but this has recently come under intense criticism by Dunne et al⁹⁵. This neoclassical strand of the literature has been the most influential. Other developments saw new classical economists using military expenditure as

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⁹² Hans Mogenthau *Politics Among Nations* (2000)

⁹³Alex Mintz and Chi Huang, "Defence Expenditures, Economic Growth and the Peace Dividend," *American Political Science Review* 84 (1990): 1283-1293.

⁹⁴BasudebBiswas and Rati Ram, "Military Expenditure and Economic Growth in Less Developed Countries: An Augmented Model and Further Evidence." *Economic Development and Cultural Change* 34 (1986): 361-72.

Paul J. Dunne, Ron Smith and Dirk Willenbockel, "Models of Military Expenditure and Growth: A Critical Review." *Defense and Peace Economics* 16 (2005): 449 - 461.

an important shock to the system, which can have dynamic real effects on output and more recently attempts to introduce military spending into endogenous growth models.

An alternative Keynesian approach saw a proactive state using military spending as one aspect of state spending to increase output, through multiplier effects in the presence of ineffective aggregate demand. Military spending can then lead to increased capacity utilization, increased profits and hence increased investment and growth⁹⁶. It has been criticized for its failure to consider supply side issues, leading many researchers to include explicit production functions in their Keynesian models⁹⁷. More radical Keynesian perspectives have focused on the way in which high military spending can lead to industrial inefficiencies and to the development of a powerful interest group composed of individuals, firms and organizations that benefit from defense spending, usually referred to as the military industrial complex (MIC). The MIC increases military expenditure through internal pressure within the state even when there is no threat to justify such expenditures⁹⁸.

The Marxist approach sees the role of military spending in capitalist development as important though contradictory. There are a number of strands to the approach which differ in their treatment of crisis, the extent to which they see military expenditure as necessary to capitalist development, and the role of the MIC in class struggle. One offshoot of this approach has provided the only theory in which military spending is both important in itself and an integral component of the theoretical analysis, the under-consumptionist approach. Developed from

⁹⁶ Riccardo Faini, Patricia Annez and Lance Taylor, "Defense Spending, Economic Structure and Growth: Evidence among Countries and over Time," Economic Development and Cultural Change 32 (1984): 487-498.

⁹⁷SaadetDeger and Ron Smith, "Military Expenditure and Growth in LDCs," *Journal of Conflict Resolution* 27

<sup>(1983): 335-353.

98</sup> Paul J. Dunne and Elisabeth Sköns ,(2010) "Military Industrial Complex," in *The Global Arms Trade*, edited by AndrewTan London: Routledge.

Baran and Sweezy⁹⁹this sees military expenditure as important in overcoming realization crises, allowing the absorption of surplus without increasing wages and so maintaining profits. No other form of government spending can fulfill this role. While this approach has been extremely influential in the general economic development literature, empirical work within this approach has tended to be limited to developed economies¹⁰⁰. These theoretical frameworks provided the foundation through which the study was discussed. They assisted the researcher to deeply understand the behavior of states and also comprehend the impact of military spending on economical welfare.

1.7 Hypotheses

This study tested the following hypothesis:

- a) Higher military spending adversely affected the provision of social services in Ethiopia
- b) Higher military expenditure reduced wage employment in both public and private sector.
- c) Higher military expenditure contributed to the escalation of poverty in Ethiopia.
- **d**) There was no correlation between military spending and the socio-economic welfare.

1.8 Methodology

In carrying out this study, both primary and secondary data was employed. Primary data was collected through questionnaires which contained both open-ended and closed-ended questions and personal interviews with key selected informants. The questionnaires were administered on a 'drop and pick later' technique. Secondary data included both quantitative and qualitative. Since the focus of the study was on gaining insights and familiarity with the subject area for more rigorous investigation later, exploratory research was adopted. This genre of research is

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⁹⁹Paul Baran and Paul Sweezy, (1966) *Monopoly Capital* (Monthly Review Press: London.

¹⁰⁰ Fanny Coloumb (2004), *Economic Theories of Peace and War* London: Routledge.

considered appropriate because it simply allows us to gain a greater understanding of the subject matter. The data for this study was derived from relevant literature that addresses the issue of military spending and economic welfare in Africa specifically, Horn of Africa. The study drew further insights from magazines newspapers and relevant academic journals, published and unpublished papers from relevant workshops and seminars.

1.8.1 Sampling

Sampling it the process of selecting a number of individuals for a study in such a way that the individuals selected represents the large group from which they are selected 101. The researcher first identifies the relevant correspondents as follows: Opinion leaders, social workers and university students as respondents for the questionnaire. Purposive sampling was regarded best due to language barrier and high levels of illiteracy among Ethiopians, thus most respondents were university students and graduates. The researcher selected his sample among students from 12 universities across the country namely: Addis Ababa University, Adama University, Awassa University, Bahir Dar University, Debra Birhane, Dilla University, Jimma University, Gondar University, Mekelle University, Dessie University, Hope University, and St. Mary's University. The researcher personally visited six of the Universities with the questionnaires on different occasions and the remaining six Universities, students studying in those universities but who hails in Addis Ababa and its environs were identified and administered with the questionnaires during their summer holidays. The students were picked using snow bowl technique: one identified student would lead to another one and this continued until all the desired number of respondent was obtained. Every University had ten respondents apart from Addis Ababa which

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¹⁰¹ Chandran, 2003

had twenty respondents to represent the Campuses it has in the city. A total of one hundred and forty respondents were sampled from twelve Universities as illustrated in the table 1.8.1 below.

Table 1.8.1: Sampling Procedure.

Name of the	City/Town	Number of		
University		respondents	Campuses	respondents
Addis Ababa	Addis Ababa	10	2	20
Adama University	Nazareth	10	1	10
Awassa University	Awassa	10	1	10
Bahir Dar University	Bahir Dar	10	1	10
Debra Birhane	Debra Birhane	10	1	10
Dessie University	Dessie	10	1	10
Dilla University	Dilla	10	1	10
Gondar University	Gondar	10	1	10
Mekelle University	Mekelle	10	1	10
Jimma University	Jimma	10	1	10
Harar University	Dire Dawa	10	1	10
Hope university	Addis Ababa	10	1	10
St. Mary's University	Addis Ababa	10	1	10

		Total respondents	140

1.8.2 Area of Study

The area of study is the limit of the study area. In this research our area study is Ethiopia. It's equally important to have brief information about the study area, for this will help us to understand and appreciate the study. To begin with Ethiopia is located in the Horn of Africa. It has five immediate neighbors and is bordered on the north and northeast by Eritrea, on the east by Djibouti and Somalia, on the south by Kenya, and on the west and southwest by Sudan.

The country has a high central plateau that varies from 1,800 to 3,000 meters (6,000 ft.-10,000 ft.) above sea level, with some mountains reaching 4,620 meters (15,158 ft.). Elevation is generally highest just before the point of descent to the Great Rift Valley, which splits the plateau diagonally. A number of rivers cross the plateau--notably the Blue Nile flowing from Lake Tana. The plateau gradually slopes to the lowlands of the Sudan on the west and the Somali-inhabited plains to the southeast.

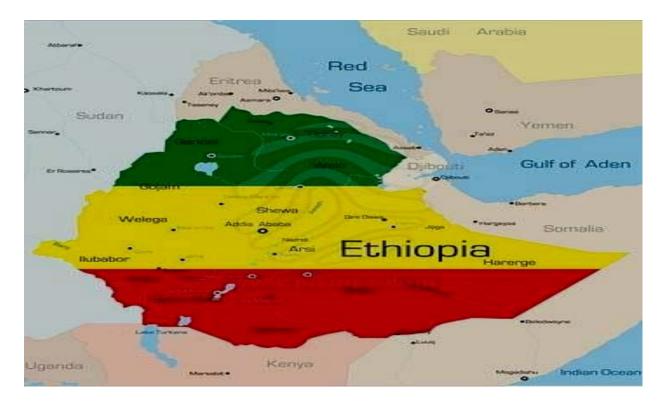
The climate is temperate on the plateau and hot in the lowlands. In Addis Ababa, which ranges from 2,200 to 2,600 meters (7,000 ft.-8,500 ft.), maximum temperature is 26° C (80° F) and minimum 4° C (40° F). The weather is usually sunny and dry with the short (belg) rains occurring February-April and the big (meher) rains beginning in mid-June and ending in mid-September.

Below is a photo of Addis Ababa center of business district, taken during the day light, while the next photo is a general Ethiopian map showing its bordering countries as her neighbors; Kenya, Eritrea, Djibouti, Sudan and Somalia.



The Capital city of Ethiopia – Addis Ababa. 102

 $^{^{102}}$. Photo by Françoise De Mulder/Roger Viollet/Getty Images



1.9 Chapter Outline

This study is organized in five major chapters on various thematic areas: In chapter one, the background of the study is discussed, an outline of the problem under study is given, the objectives and the justification of the study is also highlighted. In this chapter literature review on thematic issues are also discussed. And finally the theoretical framework closes the chapter.

In chapter two, an overview of the Ethiopian Economy and public spending in Ethiopia, 1974 - 2010 is given. This chapter lays the foundation of our understanding of the impact of the military on economic welfare of the people of Ethiopia. It is the backbone of our study in different fronts.

Chapter three elucidates the military sector and the political economy of military expenditure in Ethiopia. This chapter picks from chapter two's public spending and the economy of Ethiopia, but involving politics and Military; Politics, Military and Economy. All these are discussed collectively.

In chapter four, looks at the resultant effects of military spending on the economic welfare. This chapter brings the study into context.

Chapter five of the study basically gives a summary of the study, the conclusion and recommendations for policy considerations.

The Thematic Areas dealt with in the study.

- a) Background Information of the study
- **b**) An overview of the Ethiopian Economy and public spending in Ethiopia between 1974-2012.
- c) The military sector and the political economy of military expenditure in Ethiopia.
- d) The resultant effects of military spending on the economic welfare
- e) Summary of the study, the conclusion and recommendations for policy considerations.

CHAPTER TWO: AN OVERVIEW OF THE ETHIOPIAN ECONOMY AND PUBLIC SPENDING ETHIOPIA.

2.0 Introduction

Ethiopia is said to be one of the least developed nations in the world ¹⁰³. Being the second most populous country in Africa after Nigeria with a population of 76.8 basing on the 2008 censors Ethiopia was left a landlocked country after the secession of Eritrea in the early 90s. 84.3% of the population lives in the rural areas while 15.7% are urban dwellers with an annual growth rate of 2.8% per annum ¹⁰⁴. It is one of the poorest countries in the world ranking 170 out of 177 nations on the Human Development Index (HDI) in 2006 ¹⁰⁵ and 92 out of 95 countries on the Human Poverty Index (CPAP) in 2007.

¹⁰³ Ethiopia is ranked 170th out of 174 countries with low human development (HDR, 2010).

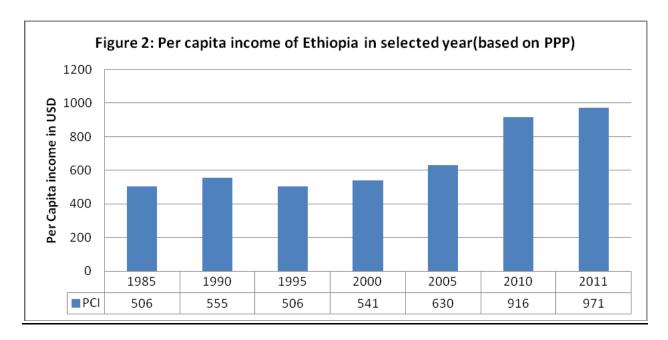
United Nations (2005). World population prospects 1950-2050: The 2004 revision database, Department of Economics and Social Affairs, Population Division. New York
 Ibid

As per the findings of the studies which have been conducted in the country, the various civil wars that hit the country in the 1970s and 1980s, and the frequent droughts that occurred since the 1960s up to the present are believed to be the reasons behind the underdevelopment of the country (Tsegay, 2008).

2.1 Ethiopia's Economic growth

Economic growth refers to an increase in the national output or per capita income. One of the macroeconomic policy objectives is to achieve continuous economic growth. In the 1980s and early 1990s, the Ethiopian economy was on downward trends, with average growth rate of 2.3 percent. In 1996, the national Gross Domestic Product (GDP) was Birr 37 Billion. After six years that is in 2002 the GDP increased only by Birr 30 Billion and reached around 67 Billion.

According to Asnake Kefale 106 (2011), the double digit GDP growth rate which the country (Ethiopia) achieved for the last several years since 2003/04 has somehow boosted the confidence of the government in its developmental path. Such economic performance has shown also decline in the income inequality at the national level. According to the findings of the 2011 Household Income and Expenditure Survey, which also showed that income inequality ¹⁰⁷, as measured by the Gini coefficient, declined slightly from 0.30 to 0.29 between 2004/05 and 2010/11.



Source: Various UNDP reports

Towards the last few years of Mengistu's regime as we can see from the UNDP reports figures above, the percapita income was lower interms of US Dollars than during the EPRDF regime. If we go further, during the last few years of Emporer Sellasie, upto the EPRDF, we can see that its only during the derg regime that the economy was not growing. For Example the derg took

¹⁰⁶ Assistant Professor of Political Science and International Relations, Addis Ababa University

¹⁰⁷ Inequality continues to be higher in urban areas than in rural areas.

power from the emperial regime with an average growth of 4% in 1974. It drastically dropped by 2.7% in the first years of the derg regime but it started picking up again when Meles' regime came to power. Study the table below for more average growth rate comprehension between 1960 to 2010 where all the three regimes are covered.

Table 2.1.1 Average growth rate of real GDP, GDP per capita and Population (1975 -2010).

VARIABLES	1960-	1975-	1981-1990	1991-2000	2001-2010	1975-2010
	1974	1980				
Real GDP	4.0	1.3	2.2	3.2	8.4	3.8
GDP per capita	1.5	-0.5	-1.4	1.6	5.8	1.4
Population	2.0	1.8	3.6	1.6	2.6	2.4

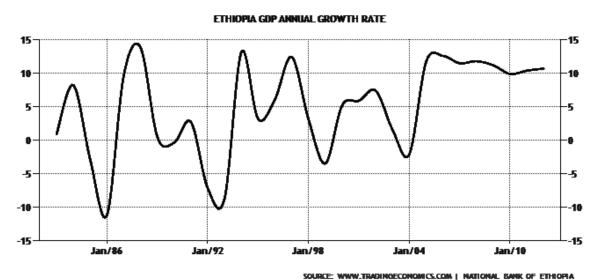
Source: Calculation based on IMF, world economic outlook database, 2011.

Ethiopia had two different regimes with different policies and ideologies since 1975: the Derg regime (1975 to 1990) and the Ethiopian peoples' Revolutionary Front (EPRDF) since 1991. The first regime followed command economic system while the later initiated economic reforms to address the long-term structural problems of under-development and followed a market oriented economic policy whereby the role of the private sector has been given priority.

Pursuant to this fact, its economic performance has been different and fluctuating. Table 2.1.1 summarizes the average growth rate of real GDP, GDP per capita and population for the period ranging from 1975 to 2010. During the entire period under study, the Ethiopian economy had an annual average real GDP growth rate of 3.8, while population and per capita GDP grew by 2.4

and 1.4% respectively. Due to civil wars, recurrent drought, high population growth and inappropriate economic policies, the performance of the Ethiopian economy was not satisfactory during the Derg regime as it was fighting too many problems at the time.

Table 2.1.2 Ethiopia GDP Annual Growth Rate



Average real GDP and per capita GDP growth rate were 2.2 and - 1.4% per annum for the period 1981 to 1990, respectively ¹⁰⁸. This is the period when Colonel Mengistu, the then government of Ethiopia, was following a socialist ideology. Following the end of the civil war on May 1991, the

Ethiopia, was following a socialist ideology. Following the end of the civil war on May 1991, the EPRDF came into power with market oriented policy that brought about improvement in the economic performance of the country. The average growth rates of real GDP and GDP per capita have increased to 8.4 and 5.8% respectively. During this period, the importance of private sector with significant intervention of government in development has been recognized ¹⁰⁹. In table 2.1.2 above, the GDP Annual Growth Rate in Ethiopia is always reported by the National Bank of Ethiopia. Ethiopia's GDP Annual Growth Rate averaged 5.05 percent from 1982 until 2012, registering an all time high of 13.86 percent in December of 1987 and a record low of -

¹⁰⁸ Geda A. and Befekadu Degefe, 2002.

¹⁰⁹ Ibid.

11.14 percent in December of 1985. It is widely known that Ethiopia is one of the poorest countries in the world. Most of its population relies on subsistence agriculture and foreign aid. Yet, Ethiopia is amongst the fastest growing non-oil economies in the world. Government reforms spearheaded by Meles zenawi, succeeded in opening the economy to foreign direct investments and resulted in expansion of commercial agriculture and manufacturing industry. However, systemic trade deficits, under-developed financial system and unemployment are Ethiopia's main economic constraints.

2.2 Structure of the Ethiopian economy.

Agriculture, being the main contributor to GDP and the main source of foreign exchange earnings of the country, has been the back bone of the Ethiopian economy¹¹⁰. However, the sector is characterized by its heavy dependence on unreliable rainfall and subsistence traditional farming system. Figure 1 below depicts the sectoral decomposition of Ethiopia's economy.

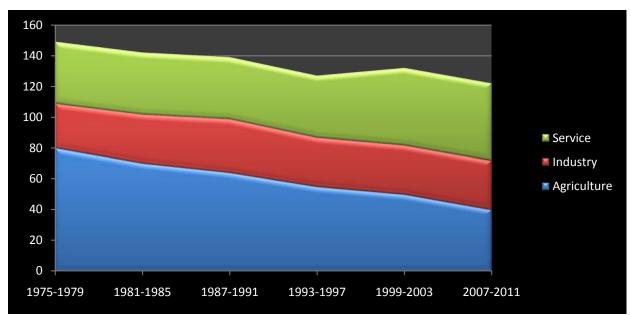


Figure 2.2.1 Structure of the Ethiopian economy (% of GDP), 1975 to 2010. Source: Own calculation based on unpublished material obtained from MoFED, 2010¹¹¹.

¹¹⁰Tofik S. Journal of Economics and International Finance Vol. 4(8), pp. 173-191, 7 May, 2012.

¹¹¹ MoFED (2010) unpublished material.

It indicates that the Ethiopian economy did not exhibit significant changes in its structure in the last three and half decades as the agricultural sector continues to dominate followed by the service and industrial sectors. The share of agriculture has been declining while that of service has been increasing. The share of industry has shown a slight improvement through the periods, from 9% in 1975 to 13% in 2010. This is mainly because of the importance which has been given to the private sector and foreign direct investment¹¹².

2.3 Gross domestic savings and investment in Ethiopia

Capital formation is regarded as one of the requirements for accelerating economic growth both in academia and in policymaking. It is financed by different sources with the main source being domestic savings. In case there is a saving-investment gap, external sources of finance such as loan, aid and foreign direct investment (FDI) can help to bridge the gap. Table 2 below summarizes the trends of capital formation and domestic saving in Ethiopia for the period 1975 to 2010.

Table 2.3.1 Average gross capital formation and domestic saving (% of GDP), 1975 to 2010.

Variable % GDP	1975-1980	1981-1990	1991-2000	2001-2010		
Gross capital formation	11.4	14.6	16.5	23.2		
Gross domestic savings	7.2	7.7	8	5.8		
Resource gap	-4.2	-6.9	-8.5	-17.4		
FDI	0.1	0.02	1.01	2.91		

Source: Calculation based on data from UNCTAD start, world investment report, 2010 and MoFED, unpublished material, 2010^{113} .

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¹¹² Opcit. pg 178

¹¹³ UNCTAD, World investment Report (2010) and MoFED, unpublished material (2010),

These statistics shown in Table 2.3.1 above illustrate that household savings has been well below the required amount to finance the capital formation in the country. Because of the inappropriate economic policy that Derg had been following, the gross capital formation (GCF) was far below the level during the post-1991 period. During that period, ownership of means of production was mainly restricted to the government and the role of the private sector in the economy was deliberately reduced to the extent of setting capital ceiling law.

In addition, if we look at the foreign direct investment (FDI) as a percentage of GDP, it had been very negligible due to the afore-mentioned reasons and the prevailing political turmoil. With the change in economic policy and the priority given to the private sector, GCF as a percentage of GDP has been increasing and reached the maximum level of 23.2% during 2001 to 2010.

Besides, FDI has also increased the following the reform. On the contrary, domestic saving could not be raised to finance the investment. This is mainly due to subsistence nature of the Ethiopian economy where 80% of the population depends on subsistence agriculture. The poor savings habit in the formal financial institutions (people prefer informal savings like "equb" and "idir")¹¹⁴ coupled with the low real interest rate paid on savings have also contributed to the poor performance of domestic saving. Provided that the FDI flow into the country has been negligible, the saving-investment gap in Ethiopia implies the importance of foreign finance, mainly aid and loan. It is worth mentioning in this regard that Ethiopia has received 13.4% net ODA as a percentage of GDP in 2009 (OECD, 2010).

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¹¹⁴ "Equb" and "Idir" are informal associations where people save their money to help each other in raising funds for business start-up and to protect against unforeseen conditions, respectively.

2.4 Ethiopia's trade performance during and post-Derg regime

In the globalized world where all economies are interlinked in production and exchange of commodities, international trade plays an important role to step forward an economy. In this regard, we can trace the case of China whose growth emanated mainly from its heavy export to the rest of the world at least in the last decade. For developing economies like Ethiopia, import also plays an important role as it supplies capital goods that could not be produced locally, and it also augments local production through delivering necessary raw materials and intermediate goods 115. Moreover, it provides consumer goods, even food, as the countries are not selfsufficient. However, it requires enough exports to get the foreign exchange required to finance those imports. But, given the country's lack of mineral resources and the heavy dependence on agricultural production, mainly subsistence which is backward in nature, it was not able to export enough and has been suffering from continuous trade deficits. The main export items are coffee, cut flowers, chat, hide and skins, oil seeds and vegetables 116. Figure 2.4.1 depicts the trade performance of the country for the period under review. During these periods, the country has been facing a trade deficit, which has been getting wider and wider reaching almost USD6.7 billion in 2008.

As earlier mentioned, the country remained to be exporter of agricultural commodities, which has income inelastic demand and a very volatile price in the international market. On the opposite side, its imports are manufactured goods, which are highly valuable. Regarding the financing of this deficit, official development assistance (ODA) remained to be the most important.

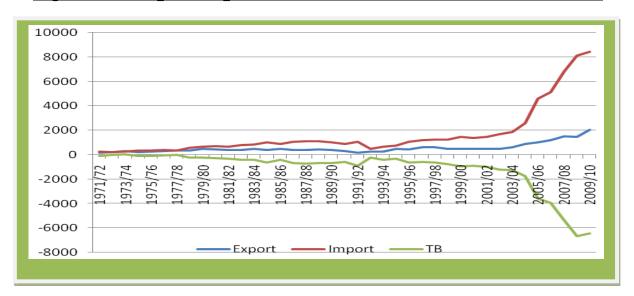
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¹¹⁵ Hailemariam. (2009).

¹¹⁶ Siraj T. Journal of Economics and International Finance Vol. 4(8), pp. 173-191, 7 May, 2012.

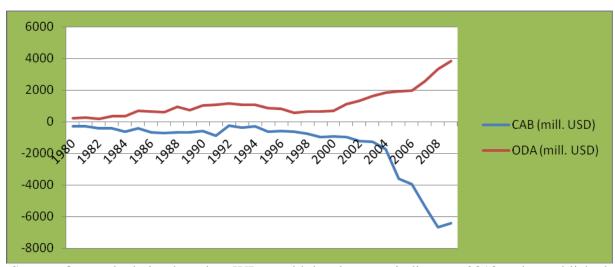
The Figures below shows Export, Import and trade balance, between 1971 to 2010¹¹⁷ Look at the export, import and trade figure below.

Figure 2.4.1 Export, Import and trade balance, 1971/1972-2009/2010.118



Source: Own Calculation based on unpublished material obtained from NBE, 2010.

Figure 2.4.2 CAB and ODA (million USD), 1980-2009119.



Source: Own calculation based on WB, world development indicators, 2010 and unpublished material obtained from NBE, 2010.

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¹¹⁷ Unpublished material obtained from NBE, 2010.

unpublished material obtained from NBE, 2010

¹¹⁹ Ibid.

To supplement this argument, current account balance (CAB) was drawn against ODA (Figure 2.4.2). CAB is more or less a mirror image of ODA implying that much of the deficit has been financed by ODA. The deficit has also made the country to become over-indebted as the remaining part of deficit has also been financed through foreign borrowing ¹²⁰.

2.5 Public expenditure and growth in Ethiopia during and postderg regime

One way of analyzing the relationship between total government expenditure and real GDP is by looking at the trend of the two together on the same coordinate plane. Figure 2.5.1 depicts their trend for the case of Ethiopia. As seen from the figure, there is a direct correlation between the two gross figures implying a positive relationship. This is in line with Keynesian explanation of the role of government spending in stimulating an economy which is below full employment.

Figure 2.5.1. Total government expenditure and real GDP (millions of Birr), 121

Source: Own calculation based on IMF, world economic outlook database, 2011.

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¹²⁰ Ibid pg180

¹²¹ IMF. World Economic Outlook Database, 2011.

During the Derg regime, public spending had a slight increase and the real GDP too. This could mainly be due to the limited revenue source of the government as the private sector involvement in the economy, the potential tax payers, was very low due to the socialist ideology of the government. Besides, the flow of ODA to the country, which is another source of revenue for the government, was very low since the then policy and ideology was not in conformity with the western states' interest. It was after the downfall of Derg that total public spending increased significantly following the reconstruction of the country. Spending on infrastructure development and provision of social services had grown tremendously during this period. As a result, the real GDP had registered a significant growth. The change in economic policy to a relatively free market economic system and the subsequent private sector involvement could also be the reason behind. However, looking at the gross figures does not show the size of government relative to the economy. Thus, it is necessary to scrutinize the trend of government expenditure as a percentage of GDP, which can clearly depict the size of the government in the economy.

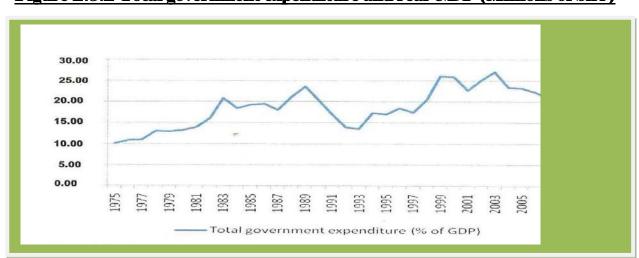


Figure 2.5.2 Total government expenditure and real GDP (Millions of birr)¹²²

¹²² Own calculation based on IMF, world economic outlook database 2011.

Figure 2.5.2 depicts total government expenditure as a percentage of GDP. This ratio is calculated for the range of periods during which Ethiopia had two different regimes with different economic policies and ideologies: the Derg regime and the EPRDF. During the Derg regime, which was from 1975 to 1990, the ratio of government expenditure to GDP had shown a steady growth, except a slight decline in 1984 and 1987, as a consequence of its socialist policy measures. By then the government was engaged in the production and distribution of private goods and services, which could otherwise be provided by the private sector. In early 1980s, government capital expenditure, especially those related to agriculture and land settlement and manufacturing expansion had boosted the rise.

Figure 2.5.3. Real GDP growth rate, 128 1975 to 2010.



Source: Own calculation based on IMF, world economic outlook database, 2011.

Besides, the involvement of the country in civil war and the subsequent war related expenditure during the 1980s had also contributed considerably to the growth in public spending. However, if

 $^{^{123}}$ Real GDP growth rate captured from IMF, world economic outlook database, 2011.

we look at the growth rate of real GDP during this period, it was very poor in figure 2.5.3 above. The country had only an average growth rate of real GDP of 1.86%. This has the implication that government expenditures, particularly government investment spending on the production of private goods and services were unproductive and inefficient and thus the role of government expenditure in economic growth was negative. In May 1991, following the down fall of the military dictator of Derg, the transitional government of Ethiopia (that is, EPRDF) came into power. This new government designed a market oriented economic system and made reforms in its expenditure policy. The main objective was to divert spending on the production of private goods and services, leaving it for the private sector, towards the development of infrastructure and accumulation of capital. As a result, there was a sharp decline in the size of government expenditure as a percentage of GDP during the early post-1991 periods. Though there was an increase in the share of government spending starting from 1994 following infrastructure development, it remained below the level which was under the Derg regime till 1997. However, in 1998, it had increased due to the war with Eritrea and reached the maximum level of 27% of GDP in 2003 before it started falling back¹²⁴. Pursuant to this change in policy and ideology, the economy had shown improvement and registered a positive average growth rate of 5.13% till 1998. At this point in time, the country entered into war with Eritrea on a border dispute case which affected the economy negatively. In 2003, the country was under fire due to the wide spread drought that led to food insecurity for over more than 14 million persons. 125 As the country's economy is highly dependent on agriculture, the real GDP growth rate at that time had fallen to 2.1%. 126 It is worth mentioning in this regard that much of the fluctuations in real GDP growth rate have been due to variation in rainfall and climatic condition that affects agricultural

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¹²⁴ According to data from the Ethiopian government's Central Statistical Authority.

United States Agency for International Development, 2003.

¹²⁶ Geda, A. and Befekadu Degefe, 2002.

production as the economy is highly dependent on agriculture. From 2004 onwards, the economy has continued to grow with an average growth rate of 11%. The reorientation in government expenditure towards the provision of basic infrastructures like road, telecommunication, education and health coupled with the improvements in the private sector involvement in the economy has contributed to the achievement of this high growth rate. Gross private investment increased from an average of 8.6% during the Derg regime to 12.3% of GDP during the post-1991 reform period 127.

This has something to do with the change in economic policy that has created an investment-friendly environment for private investors and the crowding-in effect of government expenditure reorientation towards infrastructures (Tables 2.1.6, 2.7.1 and 2.8.1) below. Generally, the two regimes had different spending and economic policies which led to variation in the growth rates.

During the Derg regime, the average government expenditure as a share of GDP was 16.35% while the average growth rate of real GDP was 1.86%. On the other hand, the average government expenditure as the share of GDP during the post-1991 reform period is 20.27% while the average real GDP growth rate is 5.77%. As opposed to those literatures that argue that large government size is detrimental to economic growth, this result reveals that a rise in public expenditure can have a positive multiplier effect on the economy if made on the right thing in a right way.

¹²⁷ Economic Commission for Africa (ECA), *Economic Report on Africa 2002: Tracking Performance and Progress* (ECA: Addis Ababa, 2002), URL http://www.uneca.org/era2002/, p. 95.accessed on 15th July 2011 lbid.

2.6 Composition of public expenditure in Ethiopia

This paper now turns to the analysis of the composition of government expenditure during the study period. To evaluate the growth effect of government expenditure, it is imperative to look at its structure and composition rather than the aggregate figures. This is because government expenditure can be more on growth enhancing sectors like infrastructure development or on transfer payments that has little to do with growth as it is payment which does not involve production.

2.6.1 Current and capital expenditure

Most literatures deal with government expenditure structure in terms of capital and current expenditure. Capital expenditure refers to those expenditures on fixed assets such as land, buildings, plant and machinery, which are long lasting. These are outlays on developmental projects that enhance the capacity of the economy for the production of goods and provision of economic and social services. Current expenditure, on the other hand, includes expenditure on wages and salaries, supplies and services, rent and so on, which are considered as consumables and recurring in the process of delivering government services. ¹²⁹ In table 4 below explicitly shows the expenditure policy of governments in Ethiopia. During the early periods of the Derg regime, the share of capital expenditure in total expenditure was very low (22%) as compared to current expenditure (78%).

¹²⁹ Bailey, 2002.

Table 2.6.1 Capital and current expenditure (% of total expenditure), 1975 to 2010.

		Average share in total Expenditure (%)			
Regime	Year	Capital Expenditure	Current Expenditure		
	1975-1980	22	78		
Derg	1981-1985	29	71		
	1986-1990	32	68		
	1991-1995	32	68		
EPRDF	1996-2000	34	64		
	2001-2005	38	62		
	2006-2010	52	48		

Source: Calculation based on unpublished material obtained from MoFED, 2010.

With the involvement of the government in the production of goods and provision of social services, however, it has increased to 32% of total expenditure during the late periods (1986 to 1990). Due to the reform in expenditure policy in 1991, capital expenditure kept on growing while current expenditure has been decreasing continuously. This ratio has more than doubled (52%) during 2006 to 2010 compared to the level (22%) during 1975 to 1980. ¹³⁰ It is worth mentioning in this regard that during these periods the country has registered an average growth rate of more than 10%. Thus, the result reveals that government's effort to divert its expenditures towards building the capacity of the country in the production of goods and provision of economic and social services during the post-1991 period had helped the country to grow significantly.

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¹³⁰ MoFED, 2010

2.7 Government expenditure on investment, consumption and human capital

According to the model developed by Ram (1986), growth effect of government expenditure can be analyzed by categorizing it into three as expenditure on investment, consumption and human capital. In doing so, government total capital expenditure less capital expenditure on health and education is considered as investment expenditure ¹³¹. Government total current expenditure less current expenditure on health and education is considered to be expenditure on consumption. The sum of capital and current expenditure on health and education makes up for government expenditure on human capital.

Table 2.7.1 Average share of various compositions of government expenditure in total expenditure. 182

		Average share in total Expenditure (%)			
Regime	Year	Investment %	Human capital %	Consumption %	
	1975-1980	20	16	65	
Derg	1981-1985	27 25.4	13 14	60 60.6	
	1986-1990	30	13	57	
	1991-1995	28	17	54	
EPRDF	1996-2000	27 31	18 21.5	54 47.5	
	2001-2005	29	22	59	
	2006-2010	40	28	32	

Source: Calculation based on IMF, world economic outlook database, 2011

Ram (1986), Growth effect on Government expenditure.
 IMF, world economic outlook database, 2011 and unpublished material obtained from MoFED, 2010.

This is because the physical and mental health of the citizens is very crucial for human capital development and productivity. Table 2.7.1 above summarizes the average share of different compositions of government expenditure in total expenditure for the two regimes. Due to the expansion in the development of road, energy, telecommunication and the like infrastructures, investment expenditure has increased from 25.4% during the Derg regime to 31% during the post-1991 period.

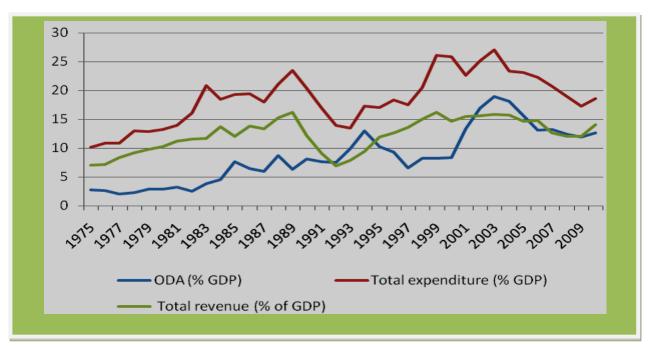


Figure. 2.7.1 ODA, government revenue and expenditure, 1975 to 2010¹⁸⁸.

Source: Calculation based on IMF, world economic outlook database, 2011 and unpublished material obtained from MoFED, 2010.

The share of expenditure on human capital has also increased from 14 to 21.5%. This is mainly due to the measure that the government took to develop human capital, which is a crucial element for development of the country. The expansion in higher institutions in the country is worth mentioning in this regard. On the contrary, expenditure on consumption has decreased

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¹³³ IMF, world economic outlook database, 2011 and unpublished material obtained from MoFED, 2010.

from 60.6 to 47.5% though it remains to have a lion share in total expenditure. With change in policy and reformation of expenditure structure, the EPRDF has been reallocating its expenditure away from consumption towards physical investment and human capital development.

2.8 Sectoral composition of public expenditure in Ethiopia

<u>Table 2.8.1 Sectoral classification of government expenditure as a percentage</u> of total expenditure, 1975 to 2010.¹⁸⁴

	DERG REGIME			EPRDF REGIME			
EXPENDITURE	1975- 1980	1981- 1985	1986- 1990	1991- 1995	1996- 2000	2001- 2005	2006- 2010
General service	44	38	36	28	33	29	23
Defense	30	29	28	16	21	8	5
Justice & order	9	5	4	3	4	9	8
Economic service	25	28	33	30	31	25	42
Agriculture	10	9	10	8	10	11	14
Industry	2	5	5	4	2	1	1
Construction transport and communication	10	7	6	9	12	13	21
Social service	19	17	16	22	21	24	30
Education and training	11	10	9	13	13	17	22
Public Health	4	4	3	5	5	5	6
Others	12	17	15	20	15	22	5
Debt servicing	4	5	7	9	8	6	3

¹³⁴ Only main items under each sectoral composition are considered. **Source:** Calculation based on unpublished material obtained from MoFED, 2010.

The other and better way of looking at the structure and composition of government expenditure is by classifying it based on functional or sectoral spending. This is mainly based on the broad objective of the government and falls under four branches: general service, economic service, social service and other services. ¹³⁵ Table 2.8.1 above summarizes government expenditure for the two regimes based on this classification. As seen from Table 2.8.1, the expenditure structures of the two regimes differ based on the objectives and priorities they set. During the Deg regime, defense expenditure had the largest share not only in general service expenditure but also in total government expenditure mainly due to the civil war during that time. However, defense expenditure continuously decreased after the down fall of Derg in 1991 and reached the minimum level of 5% of total expenditure during 2006 to 2010, except for 1996 to 2000 when the country fought with Eritrea on border dispute.

Pursuant to the fact that Ethiopia is an agricultural based economy and the effort made to develop agricultural sector, expenditure on agriculture among economic development spending constituted the largest share during the Derg regime. It has even increased after 1996 with the establishment of an agricultural development led industrialization (ADLI) strategy ¹³⁶. The share of government expenditure on industry has been declining since post-1991 due to the economic reform and the emphasis given to private involvement in the sector. Structural adjustment program was also designed with the help of World Bank and International Monetary Fund to bring about macroeconomic and structural reforms in the economy. However, the share of expenditure on construction, transport and communication has been increasing tremendously

¹³⁵ Heller and Diamond, 1990

¹³⁶ With the objective of maintaining food security and sustainable growth, the government has been following ADLI strategy since 1996. The main objective was to improve agricultural production that can generate income for the development of industry.

since 1991. Ethiopia, being a developing country, had poor infrastructure and it was believed that investment on such infrastructure is important as it can have a multiplier effect on the whole economy.

During the Derg regime, social services like education and health ware not considered much and had the lowest share in total expenditure compared to general and economic services. However, its share has been increasing, especially education's share, since post-1991 period mainly due to the emphasis given by the government to develop human capital and achieve the millennium development goals (MDGs). Other expenditure constitutes debt services, subsidies, pension and miscellaneous expenditures. These expenditures had the lowest share compared to others during both regimes.

Debt servicing had been increasing during the Derg regime as the government was borrowing mainly from the former socialist countries like the Soviet Union, Cuba to finance its war spending ¹³⁷. The trend shows that it even increased during 1991 to 1995 period due to the relatively large share of loans obtained from bilateral and multilateral donors to reconstruct the economy.

2.9 Conclusion

Developing countries like Ethiopia need to pursue economic development if they are to reduce mass poverty and suffering. To achieve this, economic growth is mainly targeted in the development strategy of every government. This is because the income of individuals and the country at large has to grow if the other components of development are to be achieved. The government has a big role to play in realizing this objective through its policies and strategies.

¹³⁷ Befekadu, 2001

However, there is no consistent theory that supports the role of government in stimulating economic growth. Likewise several empirical studies found conflicting results for different case studies further intensifying the complexity and debate on the role of government in economic growth. Ethiopia, being one of the LDCs in the world, has lots of economic and social problems.

The human development index (HDI) index of the United Nations (UN) reflects this fact. The country has poor infrastructure and social services which need to be developed if the country is to get rid of abject poverty and realize the hope of its society. The role of the government in this regard is indispensable. Thus, the study has analysed the role of government intervention via its spending policy in economic growth of the country since 1975 by using both descriptive and econometric techniques. The study period encompasses two different regimes with different economic policy and ideology.

The period from 1975 to 1991 was the period when the country had a command economic system adopted by the Derg government. During these periods, there was an increase in the size of the government as it was involved in the provision of social and economic services and production of private goods and service though it was lower than the level during the post-1991 period. The role of private sector in the economy was suppressed intentionally.

The country had a civil war in the 1980s which also contributed to huge defense spending in particular and total government spending in general. Public spending on capital assets (investment) was lower compared to current (consumption) spending. With regard to growth during the Derg regime, the country had an average annual growth of 1.86%, which was quite

unsatisfactory. This reflects the ineffectiveness of government spending policy during the Derg government.

Following the downfall of Derg on May 1991, the country's economic policy was changed towards more free and market oriented system with a substantial involvement of the private sector in the economy. Though total government spending to GDP ratio had shown a slight decrease during the early 1990s due to the reformations made, it had started increasing continuously in the late 1990s as the government targeted to develop infrastructure.

The Ethio-Eritrean war during 1998 to 2000 and the subsequent war related expenditure had also contributed to the rise. As a result of the reformation in its spending policy and restructuring of government expenditure, spending on physical capital, human capital and construction of infrastructure has been increasing while spending on defense, consumption and industry has been decreasing since post-1991 period. This has helped the growth of the country to improve substantially (average growth rate of 5.77%) compared to the Derg regime. The EPRDF has had a tremendous economic come back after all its resources were initially siphoned to the military forces.

CHAPTER THREE: THE MILITARY SECTOR AND THE ECONOMY OF MILITARY EXPENDITURE IN ETHIOPIA

3.1 Introduction

Ethiopia is the only country in Africa that did not suffer colonial domination, apart from a brief period of Italian occupation (1936–41). It has a long history of self-rule: the country's emperors were repeatedly successful in repulsing foreign invaders and zealously preserved the country's independence. Indeed, Ethiopia established military culture in Africa: Emperor Haile Selassie laid the foundation for a modern standing army in Ethiopia in the run-up to the Italo- Ethiopian War in 1935–36. By 1969 Ethiopia had four army divisions with combat support services and logistical support units. Between 1974 and 1990, with the assistance of the Soviet Union, the *Derg* regime built a formidable armed force, nearly half a million strong.

The seemingly unending instability in the country's political life has undoubtedly affected how public services are ordered and how public finances are structured and managed. This includes the financing of state institutions such as the military. The different ideological orientations of the governments, from the monarchical regime of Emperor Haile Selassie via the Marxist-Leninist government of Mengistu Haile Miriam and the *Derg* to the current capitalist neo-liberal ideology of Meles Zenawi, suggests that there have been different conceptions of the military—its role, mission, size and strategic importance to the state. The size of the country's military budget has been determined by these changes in ideology as much as by the perceived external and internal threats. This chapter therefore looks at military sector and the economy of military spending in Ethiopia from 1974 to 1990.

¹³⁸ Plowden as cited in Pankhurst, Richard (1963b) 'The effect of war in Ethiopian History', Ethiopian Obsever, 2(2) pg 142-162.

3.2 History, Politics and Economy: The Military Influence

Ethiopia is an ancient country and is the largest nation in the Horn of Africa. After the independence of Eritrea in 1993, Ethiopia became landlocked—the only such country in the subregion. Ethiopia has a rich political history; its evolution as a country with independent political structures dates back to the middle of the fifth century BC. In the 20th century its political structure went through three distinct phases. First was the period of monarchical rule, in particular the long reign of Emperor Haile Selassie, which came to an end in 1974. During Haile Selassie's reign there was an attempt to modernize the economic and political structures with a constitution and a burgeoning capitalist economy. However, political power remained entirely concentrated in the hands of the emperor, and the economy continued to be agrarian and feudal in nature¹³⁹.

The rise of the *Derg* regime in 1974 after the collapse of Haile Selassie's rule saw the emergence of a socialist state in Ethiopia. Political power and the economy were restructured in line with socialist ideology. Supreme power was concentrated in the Workers' Party of Ethiopia, established in 1984, while a centrally planned and controlled economy was instituted. A policy of collectivization was implemented, under which peasants were reorganized for communal production. Public corporations and virtually every economic institution were controlled by the state—this also had implications for how the military was organized ¹⁴⁰. The *Derg* regime faced serious resistance from both domestic and external forces; it had to contend with ethnic-based rebellions and conflicts with neighbouring countries, in particular Somalia and Sudan. In 1977 Somalia, asserting a territorial claim, invaded Ethiopia. This was followed by a civil war in Ethiopia, which sapped the strength of the armed forces. The *Derg* regime fell in 1991 to the

Pankhurst, R (1967) Economic History of Ethiopia, Addis Ababa, Haile Selassie University Press.

¹⁴⁰ G. Gebru (1992) Issues of human Resource Development in Ethiopia.

Ethiopian Peoples' Revolutionary Democratic Front (EPRDF), a coalition of rebel groups in which the Tigrayan People's Liberation Front (TPLF) was the dominant partner.

The new government, which is still in power, adopted a political ideology that it describes as 'revolutionary democracy' and a neo-liberal capitalist economy. A federal constitution and system of government are in place, and there is a high degree of decentralization of political power in the country. The main features of Ethiopia's political system include the notion of ethnic federalism, in which ethnicity and language form the basis of the federal units; considerable regional autonomy; the right of secession granted to the federating regions; political pluralism, which has allowed the formation of political parties; and the granting of civil and political rights. There are nine regional states in the federation. Since the federal government collects most taxes, including import and export taxes, it wields tremendous power over regions through its control of the revenue-sharing scheme¹⁴¹.

The Federal Democratic Republic of Ethiopia has a parliamentary form of government. The legislature is bicameral, consisting of the House of Peoples' Representatives (lower house) and the House of the Federation (upper house). The House of Peoples' Representatives is the highest authority of the federal government. It has 12 standing committees, which include the Budget and Financial Affairs Standing Committee and the Foreign, Security and Defense Standing Committee. The President has a purely ceremonial role: the Prime Minister is the chief executive, the chairman of the Council of Ministers and the commander-in-chief of the armed forces. The Ethiopian economy presents one of the paradoxes of economic development in Africa. In spite of the fact that the country is rich in natural resources, it has an underdeveloped, agriculture-based economy that relies on the primary products of coffee, hides, livestock, oil

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¹⁴¹ Kelly, J. E., 'Ethnic federalism, fiscal reform, development and democracy in Ethiopia', *Africa Journal of Political Science*, vol. 7, no. 1 (June 2002), pp. 34–35.

seeds and pulses, and recently chat (a mild intoxicant) as its main export products. The country is one of the least economically developed in the world, with 44 per cent of the population living below the poverty line. Between 1993 and 2003 the economy grew at an average annual rate of 4.7 per cent¹⁴². The national debt was \$10.4 billion in 1998; the interest and principal arrears accumulated on the debt reached 84 per cent of gross national product (GNP) and 506 per cent of exports in 1997¹⁴³.

The huge debt burden of the country relative to its revenue base and productive capacity enabled the country to qualify for some debt relief under the Highly Indebted Poor Countries programme of the World Bank and the International Monetary Fund. 144 It also prompted the compassionate cancellation by Russia of \$4.8 billion of debt incurred during the 17-year civil war, mostly to procure weapons and machinery in support of the *Derg's* military effort 145.

According to Merera Gudina, Associate Professor of political Science and International Relations, Addis Ababa University," The high level of militarization of Ethiopian society and the huge expenditure on the military sector have been major factors in the economic underdevelopment of Ethiopia. The cycle of conflicts and violence that has ravaged the country over the years did not provide a favourable investment climate; moreover, it led to the diversion of scarce resources to prosecute the civil war and the war with its neighbours". While the country currently enjoys relative peace, economic development and transformation are yet to follow from

¹⁴² World Bank, 'Ethiopia at a glance', Fact sheet, 15 Oct. 2004, URL http://www.worldbank.org/eth/. Accessed on 15th July 2011

¹⁴³ Economic Commission for Africa (ECA), *Economic Report on Africa 2002: Tracking Performance and Progress* (ECA: Addis Ababa, 2002), URL http://www.uneca.org/era2002/, p. 95.accessed on 15th July 2011

International Monetary Fund, 'Debt relief under the Heavily Indebted Poor Countries (HIPC) initiative', Fact sheet, Sep. 2004, URL http://www.imf.org/external/np/exr/facts/hipc.htm. accessed on 16th July 2011

Russia writes off US\$4.8 bn debt', Horn of Africa Bulletin, vol. 13, no. 3 (May/June 2001), p. 12.

the adoption of the neo-liberal economic policies of the EPRDF, although some growth has been recorded. Levels of poverty, unemployment and social dislocation remain high in Ethiopia.

1.3 The Military Sector and the Economy of Military Expenditure in Ethiopia

While Ethiopia has a long military history, the emergence of a modern military force in Ethiopia, through centralization and professionalization, is a 20th century phenomenon. Beginning in the 1920s efforts were made to establish infantry battalions with some level of professional training. Russian military experts were first engaged in the 1920s, and in the 1930s Ethiopian soldiers were sent for training to the French military academy in Saint Cyr.

In 1934 a military training school was established in the country, at Wolaita, with the assistance of a Swedish military mission. The efforts to modernize the Ethiopian military received a boost after World War II. First, the air force and the navy were established with the help of Sweden and Norway, respectively. The British played a key role in the modernization of the army in terms of training and equipment, while a new military academy was established in Harar, modeled on the British Royal Military Academy, Sandhurst, and commanded by Indian officers 146.

In spite of these foreign connections and in contrast to other African countries, Ethiopia did not inherit its armed forces from a period of colonial rule; they were indigenous. The size of the military at the time of the collapse of Selassie's rule in 1974 was estimated to be about 40 000, while the military budget was estimated to be \$50 million in 1973¹⁴⁷ which was considered high.

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¹⁴⁶Zewde, B. (1998), 'The military and militarism in Africa: the case of Ethiopia', eds E. Hutchful and A. Bathily, The Military and Militarism in Africa .Codesria: Dakar. p. 262. ¹⁴⁷ Ibid p. 275

<u>Table 3.3.1 estimated strength of active military forces of countries</u> in the Horn of Africa, *1997*–2004¹⁴⁸

Country	1997	1998	1999	2000	2001	2002	2003	2004
Djibouti	9 600	9 600	9 600	9 600	9 600	9 850	9 850	9 850
Eritrea	46 000	47 100	180 000	200 000	171 900	170 000	202 200	201 750
Ethiopia	120 000	120 000	325 500	352 500	252 500	250 000	162 500	182 500
Kenya	24 200	24 200	24 200	22 200	24 400	24 400	24 120	24 120
Sudan	79 700	94 700	94 700	104 500	117 000	117 000	104 500	104 800

From the above table it is imperative to note that Ethiopia's military strength was on the ascending lane with the increase in numbers almost on a yearly basis. Despite the fact that it reduced from between 2002 and 2004, it is noteworthy that the increase had a ramification on the economy of Ethiopia. Scholars have attributed to poor economic development in Ethiopia to the enormous spending on the military.

Indeed, the military strength of Ethiopia is higher as compared to the five neighboring countries. Dramatic shifts occurred in the nature and size, and consequent cost, of the Ethiopian military from the 1970s onwards, coinciding with the establishment of the socialist regime of Mengistu in 1974. Various factors accounted for this. The first was the political ideology of Marxism-Leninism adopted by the government in which the economy and polity were centrally controlled and public expenditure rose significantly. Public expenditure as a percentage of gross domestic

¹⁴⁸ International Institute for Strategic Studies, *The Military Balance 1997/1998*; *1998/1999*; *1999/2000*; *2000/2001*; *2001/2002*; *2002/2003*; *2003/2004*; and *2004/2005* (Oxford University Press: Oxford, 1997–2004).

products was 13 per cent in the 1960s but rose to 34 per cent by the 1980s¹⁴⁹. The second factor was the culture of militarism that accompanied that ideology. In an effort to build a 'people's army', massive military recruitment was undertaken. As well as the usual channels of recruitment, such as the introduction of national military service from 1983, less orthodox methods were also adopted, such as the recruitment of peasant militias. The third factor that inflated the size and cost of the military under the *Derg* regime was incessant conflict, domestic and external.

Armed domestic opposition groups which waged war against the regime included the Eritrean Liberation Front and the Eritrean People's Liberation Front, both fighting for self-determination for Eritrea, the TPLF, the Oromo People's Liberation Front and the Ethiopian Democratic Union. On the external front, Ethiopia was confronted with a conflict with Somalia over the Ogaden region. Ethiopia's relationship with Sudan was also fraught with tension and conflict. At the height of its strength, the *Derg* army was nearly 500 000 strong (including militia), consisting of infantry and mountain divisions, motorized divisions and a large number of tank battalions. It also had an air defense system, which deployed Russian anti-aircraft guns and surface-to-air missiles (SA-2, SA-3 and SA-7)¹⁵⁰.

The air force had 85 combat aircraft consisting of MiG-23 and MiG-21 fighters, bombers, and armed and transport helicopters. The navy had 32 craft in total, including 2 Russian-made frigates, 4 torpedo boats, 4 missile boats, 3 minesweepers (one of which was ocean-going) as

¹⁴⁹Taye, H. K.(,1996) 'Military expenditure and economic performance: the case of Ethiopia', Ethiopian Journal of Economics, vol. 5, no. 2, p. 2.

¹⁵⁰ Haile Kebret (1997) Military Expenditures and Economic Performances; Lessons from the Ethiopian Economy:Ethiopian Journal of Economic,6(1)

well as 3 auxiliary ships for transport, 12 fast patrol boats and 2 minesweepers ¹⁵¹. Indeed the size of the Ethiopian armed forces in 1990 was 252 500, the largest in sub-Saharan Africa at the time. The EPRDF, which took over power from the *Derg* in 1991, disbanded the old army and grounded the air force. With the independence of Eritrea, the Ethiopian navy ceased to exist. The EPRDF converted its own force into a new army and started to rehabilitate the air force. By 1998 Ethiopia found itself engaged in a massive war with Eritrea and was forced to hurriedly mobilize a large army and acquire new and sophisticated equipment. The size of the Ethiopian armed forces in 2001 was 252 500, the largest in sub-Saharan Africa at the time ¹⁵². Table 3.3.1 presents the estimated strength of the armed forces in Ethiopia and its neighbouring states. It shows that, before the demobilization that followed their border war, Ethiopia's military far outnumbered Eritrea's. These two countries continue to have the two largest armed forces in sub-Saharan Africa; indeed, in 2004 Ethiopia's military was 74 per cent larger than that of Sudan.

The inevitable result of the events of the past three decades was that military expenditure in Ethiopia skyrocketed. As table 3.3.2 (See next page) shows, military expenditure increased from 1625 million birr (\$413 million in constant dollars) in 1990 to peak at 5589 million birr (\$719 million) in 1999 at the height of the war with Eritrea. As can be seen from the table, military expenditure fell for only a few years after the collapse of the *Derg* in 1991; it started to rise again from 1993. Two immediate factors account for this. The first was the border war with Eritrea. The war occasioned massive recruitment and deployment of troops and the diversion of resources for military purposes. The unstable nature of Ethiopia's relationship with Eritrea

¹⁵¹ Ibid

¹⁵² Zewde, B. (1998), 'The military and militarism in Africa: the case of Ethiopia', eds E.

persists even after the signing of a peace agreement in December 2000. 153 Second, in the post-Mengistu era the country still has to contend with internal civil strife in the south, the south-east and the south-west, where the Ogaden National Liberation Front and the Oromo Liberation Front are active. The military, therefore, still occupies a central position in the public profile and expenditure plans of the government, and so continues to consume enormous resources.

Table 3.3.2.0 Military expenditure of Ethiopia, 1990–2004¹⁵⁴

Year	\$ M.	M. birr	as a % of GDP
1990	413	1 625	8.5
1991	205	1 095	5.3
1992	121	716	2.7
1993	134	819	2.9
1994	124	813	2.4
1995	104	754	2.0
1996	117	803	1.8
1997	215	1 512	3.4
1998	453	3 263	6.7
1999	719	5 589	10.7
2000	648	5 075	9.6
2001	438	3 154	6.1
2002	411	3 000	5.3
2003	349	3 000	4.3
2004	339	3 000	4.3

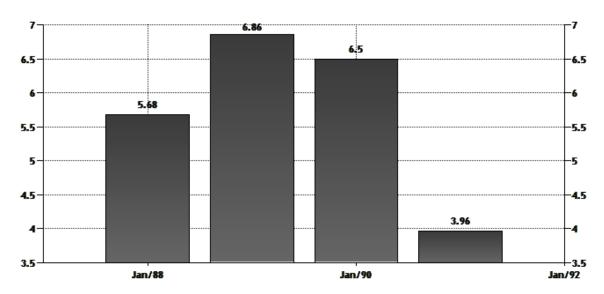
These two factors notwithstanding, the missions and roles of the armed forces have hardly changed under the last three regimes, except perhaps for some shifts in ideological emphasis. The army's role has always been to protect the territory of the country from external threat, to enforce security measures against internal insurgency, and to plan and organize civil defense, participate in civic construction projects and provide emergency relief during national disasters

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¹⁵³ Agreement between the Government of the Federal Democratic Republic of Ethiopia and the Government of the State of Eritrea, Algiers, 12 Dec. 2000, available at URL http://www.usip.org/library/ pa/eritrea_ethiopia/pa_eritrea_ethiopia.html>. accessed on 27 July 2011 ¹⁵⁴ SIPRI military expenditure database (1990-2004).

in peacetime. The air force's role has been to maintain air superiority within the country's airspace, defend the country from external aggression by air, provide air support for the army (and the navy before Eritrean independence) and during peacetime provide aviation services as required.

Table 3.3.2.1 Military expenditure trend (% of GDP) in Ethiopia



Source: World Bank report published in 2012¹⁵⁵

The Socialist regime (1974-1991)

The transitional EPRDF (1991-Date)

During the imperial and *Derg* regimes, the armed forces had overtly or covertly assumed the role of agents of social and political change. Partly as a result of Emperor Haile Selassie's belief in collective security (first through the League of Nations, then the United Nations), a belief shared by subsequent governments, Ethiopia participated in international missions in Korea, the Congo (Leopoldville), Rwanda and Burundi¹⁵⁶. The past decade has been a period of transformation for the Ethiopian armed forces: one of its major tasks has been to build capacity. Indeed the

¹⁵⁵ World bank report published in 2012.

expenditure on the military in Ethiopia has been on the rise. Except for the past few years, actual expenditure on defense in Ethiopia has exceeded appropriations. This may be largely owing to the fact that the MOND does not formulate its budget on the basis of medium- and long-term plans and may also be the result of the frequent external and internal conflicts.

Ministry of National Defense expenditure increased by more than 180 per cent in real terms over the period 1992–2004. This partly reflects the strategic importance that the new regime attaches to the sector and the level of threat perceived by the state. However, allocations for defense remain high even after the reductions that followed the formal end of the Eritrea–Ethiopia War, in December 2000.

There are two major factors that will affect Ethiopia's military expenditure in the future, aside from the actual performance of the economy itself. The level of foreign aid to Ethiopia, especially that from the World Bank and the International Monetary Fund, has in the past been contingent on reduction in the size of the armed forces. Consequently, the high level of expenditure may not continue. On the other hand, the Ethiopian military sector is in the process of transformation; this essentially means capacity building, with perhaps some change to the structure of the forces. Whatever the actual outcome of the opposing trends for capacity building and force reduction, there will be a need for a qualitative change in the management of the armed forces if undue burden on the economy is to be avoided and if the cost-effectiveness of the defense system is to be improved.

¹⁵⁶ Ethiopia contributed troops to the United Nations (UN) Command in Korea, 1951–54; the UN Operation in the Congo, 1960–64; the UN Assistance Mission for Rwanda, 1993–96; and the African Union's African Mission in Burundi, 2003–2004. It currently contributes troops to the UN Mission in Liberia, since Sep. 2003, and the UN Operation in Burundi, since June 2004, URL http://www.un.org/Depts/dpko/. Accessed on 13 July 2011

3.4 The Military Budgetary Process in Ethiopia.

The military budgetary process in Ethiopia is an integral part of the annual national budgetary system of the country. The line ministry for the military is the Ministry of National Defense. According to the MOFED¹⁵⁷ budget classification, the MOND is classified as a programme and the whole military budget is classified as recurrent expenditure, following the United Nations' classification. The MOND is divided into sub-programmes 158. In FY 1991/92 these subprogrammes were: (a) administrative and general services (MOND headquarters); (b) the ground force; (c) the air force; (d) the navy; and (e) defense construction. Essentially, this reflected the classification that existed during the *Derg* regime. In FY 1992/93 a new sub-programme was introduced for the Political Organization Army Department, which was established to carry out the demobilization and resettlement of the EPRDF troops who left the army. When this department had accomplished its task, it ceased to be a component part of the military budget after FY 1995/96. In FY 1994/95 when the Navy Department had been closed and the navy disbanded, it also ceased to be part of the MOND budget. Defense construction was also withdrawn from the MOND and now operates independently, along business lines, under the supervision of a government department responsible for nationalized enterprises. However, a new sub-programme was added in FY 1994/95: Project 40720, a vast repair and maintenance complex for heavy armaments, tanks and military vehicles built by the Soviet Union during the Derg regime which also includes some other unfinished projects. In FY 2001/2002 three new sub-programmes were added: the Defense Engineering College, the Health College and the Dejen Defense Project Coordination Office. The last of these oversees the management of a number of factories established to provide the military sector with material and equipment, such

¹⁵⁷ Ministry of Finance and Economic Development.

¹⁵⁸ MOFED budget classification.

as quartermaster items and mechanical tools. 159 In FY 2002/2003 more radical changes were made in the programme classifications, leaving eight sub-programmes: (a) administration and general services; (b) the office of the minister; (c) defense procurement; (d) the ground force; (e) the air force; (f) the Defense University; (g) Project 40720; and (h) the Dejen Defense Project Coordination Office. 160 The components of each sub-programme consist of item expenditures which include personnel services (emoluments, allowances and pension contributions), goods and services (materials and supplies, travel, maintenance and contracted services), fixed assets and construction, and other payments (subsidies, investments, grants and miscellaneous payments). In terms of administration, the Minister of National Defense is the political head of the ministry, although in reality the Prime Minister exercises considerable influence. The federal constitution requires that the Minister of National Defense be a civilian ¹⁶¹. At present the Budget Department, the Finance Department, the Procurement Agency, and the Administration and General Services Section of the MOND are all the responsibility of a minister of state, a civilian who is responsible directly to the Minister of National Defense. A civilian vice minister heads the Defense Project Coordination Office. The head of the Budget Department, who is responsible for the formulation and administration of the budget, is also a civilian. In terms of the budgetary process, at least in the formal sense, civilian control appears to predominate.

3.5 Budget formulation

There is little or no difference between the budgetary process for the military and those of the other ministries. The military budget begins at zero every year; in other words, the sector

¹⁵⁹ In the Financial Year of 2001 to 2002.

 $^{^{160}}$ In the Financial Year of 2002 to 2003.

¹⁶¹ Constitution of the Federal Democratic Republic of Ethiopia, Proclamation no. 1/1995, *Negarit Gazeta*, 8 Dec. 1994, URL http://www.ethiopar.net/, Article 87(2).

undertakes only annual budgeting. There is no medium-term perspective to military budgeting. The budgetary procedure is described in this and the following subsections; a diagram of the process is presented in figure 3.5.1 below and the calendar of the process is given in table 3.5.1 below. The MOFED sends a Recurrent Budget Call, which includes a budget ceiling, to all ministries, including the MOND. The MOND headquarters, in turn, issues a Budget Call to the heads of the various sub-programmes, with a ceiling for each sub-programme, calling their attention to various directives.

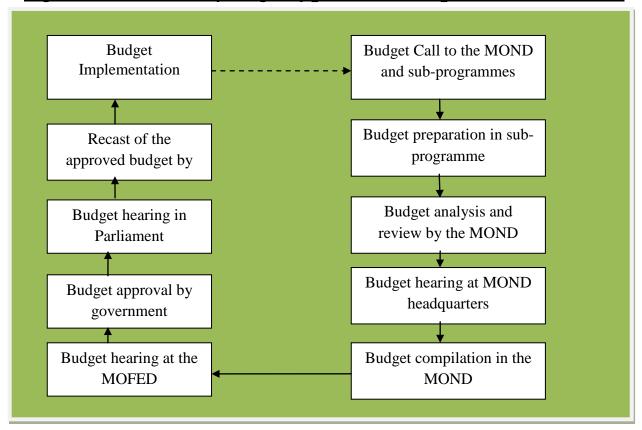


Figure 3.5.1 The military budgetary process in Ethiopia MOFED&MOND 162

In the Budget Calls it is stressed that the budget preparation process should strictly follow existing budget preparation regulations, take account of policy decisions, meet budget standards, take account of the current price of goods and services, and so on. The budget proposals from

¹⁶² MOFED – Ministry of Finance and Economic Development; MOND- Ministry of National Defense

sub-programmes include not only expenditure but also revenue. The Budget Calls also specify a deadline for the submission of budget proposals from sub-programmes. The prepared budget estimate is submitted for a budget hearing at the sub-programme level to determine the final estimate that will be sent to MOND headquarters.

<u>Table 3.5.1 The financial calendar of the Ethiopian Ministry of National</u>
<u>Defence</u> ¹⁶³

Activity	Ethiopian calendar	Gregorian calendar
Budget Call from the MOND to sub-programmes	15 Meskerem-15 Tikimt	15Sep15Oct
Budget preparation in sub-programmes	16 Tikimt-30 Tahsas	16Oct8 Jan.
Budget analysis and review by the MOND	1 Tir-15 Tir	9 Jan23 Jan.
Budget hearing at MOND headquarters	20 Tir-30 Tir	28Jan7Feb.
Budget compilation in the MOND	1 Yekatit-30 Yekatit	8 Feb9 Mar.
Budget hearing at the MOFED	23 Megabit-29 Genbot	1 Apr6 June
Start of the financial year	1 Hamle	8 July
Budget approval by government	1 Hamle~8 Hamle	8 July-1 5 July
Recast of approved budget	1 Hamle-9 Nehassie	8 July-1 5 Aug.
Budget implementation	9 Hamle-30 Hamle	16 July-6 Aug.

Following the submission to MOND headquarters of the budget proposals by the subprogrammes, budget review and analysis are carried out by experts in the Budget Department of the MOND. This involves detailed analysis to establish that the budget estimates have been prepared in accordance with the Budget Calls. It also involves an assessment of whether the

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¹⁶³ *Note:* The Ethiopian financial year (which should be distinguished from the Ethiopian trade year) runs from 8 July to 7 July (1 Hamle to 30 Sene in the Ethiopian calendar). MOFED = Ministry of Finance and Economic Development; MOND = Ministry of National Defense.

activities proposed in each sub-programme can be accomplished during the financial year, whether old and new projects have been clearly identified, and whether the budget estimate has been prepared by comparison with the previous year's performance and takes account of inventories. The objective of the exercise is also to enable the budget experts to prepare an accurate, realistic and credible consolidated budget estimate ¹⁶⁴.

After review and analysis of the budget, a budget hearing is held at MOND headquarters, at which the sub-programmes are represented and the Minister of National Defense and the Chief of Staff are present, to decide on the budget level to be recommended for each sub-programme and for the military sector as a whole. Immediately after the budget hearing and on the basis of the decisions taken during that hearing, the MOND Budget Department prepares a consolidated military budget, which also includes revenue estimates—services may collect revenue from the sale of surplus property, medical services, aviation services and items from welfare stores or canteens.

The Foreign, Security and Defense Standing Committee of the House of Peoples' Representatives scrutinizes the defense component of the national budget submitted by the Prime Minister before passing it on to the whole House for approval. After the budget appropriated by the House of Peoples' Representatives has been passed on to the MOND by the MOFED, the final exercise in the budget formulation process is the budget distribution (or recast), which allows each sub-programme to adjust the approved budget according to their actual revised requirements ¹⁶⁵. Once the budget recast is approved by the MOFED, the process of budget implementation starts with the monthly requisition by the MOND for its allotted funds. At this

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¹⁶⁴ Ministry of National Defense. (MOND).

stage all the control mechanisms that apply to other ministries and agencies of the federal government also apply to the MOND. This includes the monitoring of the execution of the budget on a monthly basis. It is doubtful, however, whether this applies to the procurement of major military weapons.

The role of the Office of the Federal Auditor-General in the budgetary process of the military sector is to audit its financial accounts annually and at other times when it deems it necessary. The auditing, as in other ministries, is performed at three levels: internal audit by the ministry, auditing by the MOFED and auditing at the federal level by the Auditor-General's office. By law, all persons appointed as auditors (including internal auditors) should be approved by the Federal Auditor-General. ¹⁶⁶

3.6 Assessing the Military Budgetary Process.

The Ethiopian military budgetary system suffers from a number of deficiencies that hamper efficient allocation and use of resources¹⁶⁷. Among these are: a lack of continuity in the process; the lack of a well-articulated defense policy and strategic plan; inefficient implementation of the budget; emphasis on input rather than output; over-centralization of authority; and relatively strong yet opposing influences on the level of military spending.

The first thing to note about the Ethiopian armed forces is that, when the *Derg* regime collapsed, the army was not simply disbanded. The EPRDF also discarded well-established doctrine on military operations, logistics and training along with the organizational structure and all the rules, regulations and standing operating procedures, and it closed training and other facilities. It

¹⁶⁶ Said Adejumobi and Mesfin Binega.

¹⁶⁷ Said Adejumobi and Mesfin Binega. pg64-65

was as though Ethiopia had never had an armed force. Moreover, the replacement was not a modern armed force; it was a guerrilla force, with all that that implies in terms of doctrine, organization and weaponry.

The EPRDF retained a handful of officers and men from the old force, but otherwise it had to start afresh, establishing a new organizational structure and operating procedures and reestablishing facilities that it had closed when it took over. The EPRDF army started out with principles and a value system that were the antitheses of those of a modern professional army. Over time all this has changed. Since 1991 the government has focused on the re-establishment of a professional army.

During this process, the new armed forces had to engage Eritrea in a border war. It is against this background that the budgetary process should be evaluated. One of the methods of modern budgets administration is 'planning, programming and budgeting', although the Ethiopian military has not adopted it. A particular advantage of this method in the Ethiopia situation is the analysis of defense capability that it requires; such an analysis is important in a defense system in the process of transformation. However, the planning, programming and budgeting method assumes that there is already short-, medium- and long-term plans and that the major budget centers are structured in such a way that they functionally reflect national defense objectives.

Ethiopia may have strategic plans but, since the planning, programming and budgeting method has not been implemented, if these plans exist, they do not play an important role in the budgetary process because there is no mechanism for coordinating the activities of those who plan and those who prepare the budget. Lack of transparency in the process does not allow for an

understanding of the basis of defense allocations. It is known that the level of budget allocation to ministries is determined through the prior setting of ceilings by the MOFED. This does not contribute to budget discipline or efficient management of the budget or the defense system in general.

On the contrary, in the administrative environment described above it may encourage the padding and inflating of budgets. For this reason, and others to do with efficiency, the MOFED should study the pros and cons of the setting of budget ceilings as a budgetary tool in the absence of a defense policy and of overarching national priorities and policy goals. Except for the past few years, actual expenditure on defense in Ethiopia has exceeded appropriations ¹⁶⁸. This may be largely owing to the fact that the MOND does not formulate its budget on the basis of medium- and long-term plans and may also be the result of the frequent external and internal conflicts.

Long-term stability and the existence of medium- and long-term plans seem to be necessary conditions for budget ceilings to be an effective tool of the budgetary process. In general, there are two possible approaches to budget formulation when attempting to achieve a goal. In the first approach, those responsible set budget ceilings and direct the implementing agencies to operate within the ceilings. There will of course be legal and administrative controls to approach is usually less effective in maintaining budget discipline, as there is little basis for the ceilings.

The second and perhaps more useful approach is for the line ministries to first submit their spending estimates, without a ceiling being set beforehand. These estimates should give detailed justifications (usually on the basis of objectives or policy goals) for increases or decreases in

¹⁶⁸ Ibid pg66.

budget, and should may then be obtained from the government for the new or additional programmes and activities and for any cost increases after analysis of past budget performance. The emphasis is on justifying the new requirements, clearly indicating how they would enhance the readiness or capacity of the combat or support element concerned and, if the requirements arise during a period of conflict, how acquiring the new capability would contribute to the war effort.

This second method was used during the *Derg* regime, but it was still a 'line item expenditure' approach. It fell far short of enabling decision makers to be able to use the budget as a tool to achieve national defense goals. If the method were suitably refined (with a strategic plan and policy), it would allow for systematic analysis of defense requirements in terms of system costs and defense objectives. Since the method is iterative, it allows closer scrutiny of the objectives themselves, making it possible to consider alternative defense systems or postures. With the establishment of proper criteria it would be possible to select the optimum defense package.

For these reasons, the Ethiopian Government should consider implementing the planning, programming and budgeting method, with the requisite analytical tools to ensure that the national defense goals are achieved and optimal use of resources is made. In short, the overall picture is that conditions in Ethiopia are not conducive to the efficient implementation of the budgetary process in the MOND.

As far as the administration of the budget is concerned, apart from ensuring that salaries and benefits are paid and that materials and supplies are procured in accordance with organization and equipment tables, the overriding emphasis is on control: not enough attention is paid to efficiency. In fact, there does not even appear to be a mechanism that could contribute to achieving efficiency. The budget consists of line item expenditure calculated on the basis of budget standards, the established civil service salary scale and the lowest possible prices for goods and services. Such an exercise in itself and in isolation cannot ensure that the goals of the defense system or its sub-systems are cost-effective, nor can it assist in measuring mission effectiveness. Furthermore, the recent changes in classification in the military budget with the introduction of the defense procurement sub-programme, which is centrally planned and administered, are leading to over-centralization of authority and a reduction in the powers of the service units, which can only have a negative effect on the optimal use of resources.

Ministry of National Defense expenditure increased by more than 180 per cent in real terms over the period 1992–2004. This partly reflects the strategic importance that the new regime attaches to the sector and the level of threat perceived by the state. However, allocations for defense remain high even after the reductions that followed the formal end of the Eritrea–Ethiopia War, in December 2000. There are two major factors that will affect Ethiopia's military expenditure in the future, aside from the actual performance of the economy itself. The level of foreign aid to Ethiopia, especially that from the World Bank and the International Monetary Fund, has in the past been contingent on reduction in the size of the armed forces ¹⁶⁹. Consequently, the high level of expenditure may not continue.

On the other hand, the Ethiopian military sector is in the process of transformation; this essentially means capacity building, with perhaps some change to the structure of the forces. The defense system is to be improved. The role of the House of Peoples' Representatives in the

¹⁶⁹ The position of the World Bank (WB) and the International Monetary Fund (IMF) on Foreign Aid to Ethiopia.

budgetary process is minimal, even though the constitution grants the legislature a great deal of power.

The President's role in the process is purely ceremonial; he has no constitutional power to influence the way in which the budget is formulated. While the House is the supreme body in terms which it exercises this authority is debatable. Although there is a standing committee for the budget, which is expected to study the budget proposals in detail and to submit its recommendations to the House, committee members lack the expertise to scrutinize the military budget properly and they do not have the services of experts at hand. In any case, the budget estimates are scrutinized as a whole, rather than by sector. The government announces through the media that budget hearings are going to be held and invites the general public to attend the hearings.

Various interest groups have the opportunity to submit their views to the standing committee and many actually do so, but this is little more than a formality: the committee deals with the budget proposals in their entirety and, in general, the recommendations presented to the House are identical to those presented by the executive. The committee cannot therefore be said to be as accountable to the public as its constitutional role demands. In fact it is the Ministry of Finance and Economic Development and the Office of the Prime Minister that have the decisive role in the budgetary process. It is therefore important to devise means of enhancing the competence of the Budget and Financial Affairs Standing Committee. ¹⁷⁰

¹⁷⁰ Ministry of Finance and Economic Development and the Office of the Prime Minister.

3.7 Conclusions

Military spending is an expenditure by governments that has influence beyond the resources it takes up, especially when it leads to or facilitates conflicts. While countries need some level of security to deal with internal and external threats, these have opportunity costs, as they prevent resources being used for other purposes that might improve the pace of development. Such issues are clearly important for the poorest economies like Ethiopia. In addition, there is not necessarily an automatic improvement in development as a result of arms and military spending reductions, it something that requires good governance, management and support ¹⁷¹.

An early influential study by Smith and Smith¹⁷² (1980) suggested that if there is a relationship between disarmament and development, it may be one that has to be constructed politically, not one that is pre-given by economic forces. It would appear from this study that their conclusion remains relevant to the modern world. After getting to know the Ethiopian military budgeting process, Let us now get down to serious business on the main topic of our study which has to be discussed in details in the next chapter. Does heavy military spending affect economic welfare?

¹⁷¹ Brauer, Jurgen (1990). "Reviving or Revamping the 'Disarmament-for-Development' Thesis?" Bulletin of Peace Proposals Vol. 21, No. 3 (September), pp. 307-319.

Smith, Ron (2000) "Defence Expenditure and Economic Growth", in Gleditsch, NP, G lindgren, N Mouhleb and S Smit (eds) "Making Peace Pay", Regna Books, Clearmont, California, Pp15-.

CHAPTER FOUR: THE EFFECTS OF MILITARY SPENDING ON ECONOMIC WELFARE.

4.0 Introduction.

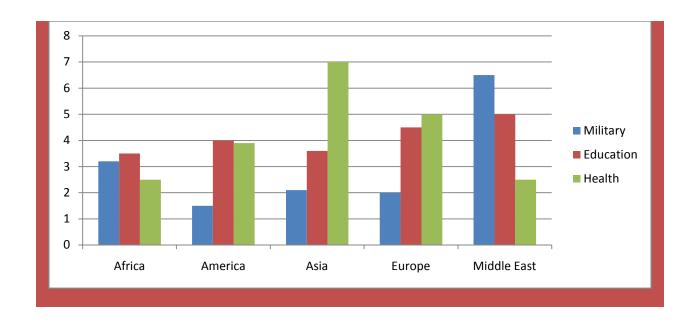
Many argue that the involvement of government in the economy enhance social development by allocating necessary resources for health, education, drinking water and other social safety nets. The absence of government in the economy has shown increase in poverty incidence and social exclusion from the benefit of economic growth. One of the features of developmental state is to improve the social well being. Market does not care for those who do not have ability to pay market price. Some time market violates our social entitlements to get health services, education, dirking water and other social service.

However states actors in the world believes that military spending is an important issue for the international economy. It is an expenditure by governments that has influence beyond the resources it takes up, especially when it leads to or facilitates conflicts. At the same time most countries need some level of security to deal with internal and external threats, but these can certainly have opportunity costs as they can prevent money being used for other purposes that might improve the pace of development. Such issues are particularly important for developing countries, as in the post Cold War world most wars have been internal and have involved the poorest countries and this is unlikely to change. When governments undertake military spending,

they provide wages and salaries and cover other expenses for the armed forces and procure arms for them. Unfortunately the only reliable data that is available is on military spending and so in reviewing the literature we simply have to recognize that arms transfers are an important component of military spending. In developing countries it is very likely that the arms will be imported, particularly any advanced weapon systems, and hence will become a drain on precious reserves of foreign exchange. This suggests that the opportunity cost of military spending is likely to be higher than simply the expenditure, once arms transfer are taken into account ¹⁷³. Whether high levels of military spending detracts from citizens' quality of life by limiting spending on development or social programs is a major concern, particularly for developing countries. There is an inherent "opportunity cost" with all government spending – money that is spent in one area cannot be spent on another. The choice between government spending on social issues and the military is sometimes referred to as one of "guns or butter." The Stockholm International Peace Research Institute (SIPRI) has compiled data regarding individual government expenditures on the military, health, and education as percentages of the country's gross domestic product from 1998 to 2001.

Figure 4.1.1 world Government Expenditures on military, health and Education-SIPRI

¹⁷³ Klein. Lo.Mckibbin: Arms Reduction: Economic implications in the post cold war Era pg175-197.



There are many choices involved in compiling data such as this. For instance, because the purpose of comparing military spending with social spending is to assess government priorities in the allocation, only public funding is included in the SIPRI¹⁷⁴ data, even though national spending is comprised of both public and private spending. Also, because "social spending" is so broad and can include a variety of different things in different countries, the sub—categories of health and education were used. The author notes also that countries use their own definitions within national budgets, so the data is best used for comparisons between military and social burdens, rather than cross country comparisons of military quality, etc.¹⁷⁵

The SIPRI table presents the spending as percentage of GDP. A GDP is one way of describing a country's economy. It is the total of the spending of individuals, business, the government, the value of exported products, minus the products imported.¹⁷⁶ In industrialized countries and developing countries, total government expenditure makes up a significantly different percentage

¹⁷⁴ Stockholm International Peace Research Institute on Public and private spending: Military, Health and Education.

¹⁷⁵ Perdoma, p. 2

¹⁷⁶ National Priorities Project, "Federal Spending." Federal Budget Pages.

of the GDP. In industrialized countries, total government expenditures account for about 40% of the GDP on average, while in developing countries it rarely exceeds more than 25%. Consequently, industrialized countries almost always spend more than 4.5 % of their GDP on education, but only a small percentage of developing countries spend that much. It is important to note that amount of spending does not always correlate with results or outcomes. It simply reflects the economic resources put towards the military, not necessarily a country's military capabilities or its military output.

Lets now shift our discussion to the Horn of Africa particularly Ethiopia and see how high defense spending has affected the delivery of services in the country. This chapter interrogates the impact of military spending on the economic welfare of Ethiopia. This explains how military spending in Ethiopia has had a consequence on the economic welfare of Ethiopia. Specifically the chapter gleans through the effects of military spending on external debt and the foreign exchange, how military spending has contributed to dependency and finally how military spending has impacted on the provision of services in Ethiopia.

4.2 Military Spending and Service Delivery in Ethiopia

This was the first objective of the study. The objective was premised on the hypothesis that military spending had impacted on the provision of services such as health care, education and water in Ethiopia. A glean through periodic organization reports reflect the assertion that military spending had diverted the much need resources thus stifling the growth of other key service sector. The health sector for instance, the study established that Ethiopia has very low health care coverage, with high incidences of morbidity and mortality. Overall, the statistics available from

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¹⁷⁷ Mehrotra, Santosh and Enrique Delamonic, "*Public Spending for Children: An Empirical Note.*" Journal of International Development 14, 1105-1116 (2002) p. 1108

¹⁷⁸ Stockholm International Peace Research Institute, "*Project Description*." The SIPRI Project on Military Expenditure and Arms Production.

the Ethiopian ministry of health shows that nearly 60 percent of rural people report being ill and require medical attention. Now let us analyze some of the sharp differences between Mengistu's (Derg) regime and that of Meles (EPRDF) from Education, Health and other social services

4.2.1 Health

The table below shows how health services in the country increased from less than 38% in the late 80s to 40% in 1995 and 60% in 2002 respectively. During this period the health coverage only increased by additional 20 percent. But the trend continued between 2002 and 2010, when the health coverage increased from 60 percent to 89 percent. Within a few years the nation had managed to increase its health coverage by 29 percent. When health extension program was initiated in the country by Meles' regime, it played a major role in health service delivery performances. Talking about health facilities, the number of health centers in the mid 1990s was 246. This number increased to 412 in 2002. In seven years, the country succeeded to create 166 new health amenities. After 2002 that means within eight years the nation was able to build more than 1500 health centers. In the same period, the country managed to construct 42 hospitals and by the end of 2002 it had managed to construct 85 hospitals. Such success in the health sector was not due to the demand and supply marker principles rather due to the active involvement of the government in the health sector development by designing the Health Sector Development Program (HSDP) which was the missing link during Mengistu's regime.

4.2.1.0 Table (1): Health sector development

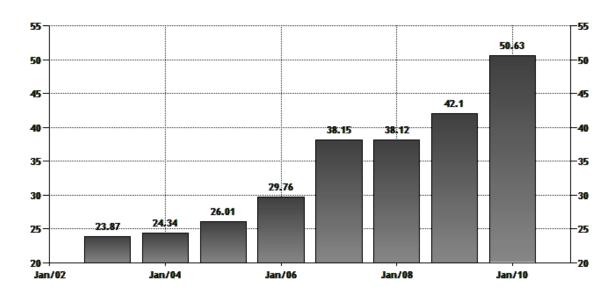
Year	1995	2000	2005	2010
Health Coverage	40	60	71	89
Number of health Centers	246	412	644	1,787
Number of hospitals	73	115	131	200
Maternal mortality rate	1400	-	871	590

Source: CSA, 2003, 2006 and 2011

4.2.1.2 Health expenditures

The trend of Health expenditure per capita in Ethiopia shows how the current regime (EPRDF) has been working hard to improve the sector. The table below shows a gradual increase on health expenditure from the year 2002 to 2010, this is according to a World Bank report published in 2012. Total health expenditure is the sum of public and private health expenditures as a ratio of total population. It covers the provision of all health services

4.2.1.1 Table (2) Government Expenditure on Health under the EPRDF regime of Meles.



4.2.2 Education

A senior civil servant who did not want his name to be mentioned, revealed that the EPRDF inherited a collapsing system from the Derg, thus improvements had to start with the Education sector in preparation for the future human resource. Citing the years between 2002 and 2010 in particular, the civil servant added that the sector witnessed a massive structures of education facilities and amplified the number of students' enrolment.

The student numbers in higher institutions of learning for example, improved from 30,500 in 1995 to 77,100 in 2002. During these seven years, the additional new student that joined the higher institutions of learning was only 27,000. The number of students in the higher institution reached 260,000 in 2010. Just within eight years the nation's higher educational enrolment number increased by 130,000 students. Such rise in student enrolment in the higher institutions was achieved by the active involvement of the government to increase access to higher institutions in the country which again Mengistu's regime had no time as it was fighting many battles.

Many scholars including Dr. A. Teshome believe that the derge regime was following the Neoliberal development paradigm which encouraged the government to force people to know how to read and write without advancing their education. Higher education was only for the elites, the ruling class ¹⁷⁹. There focus was on primary education rather than higher institution learning. Such approach increased income inequalities and deprived the right of a nation to get higher education. Ethiopia under the EPRDF regime managed to provide an access to higher institutions for the entire nation rather than providing only for those who are able to pay for university education.

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¹⁷⁹ Teshome A. Meles's Development Paradigm and Its Impacts on Economic Transformation in Ethiopia (2012)

Table3 Education sector development

Year	1995	2000	2005	2010
Primary school net enrolment rate (%)	36.6	61.6	69	88
Secondary school enrolment ratio (%)	-	17.1	25	38.1
Number of students in higher institutions	30538	77077	91655	260,241
Total number of schools	10772	12,962	17,692	30,301*
Total number of teachers	105892	146,626	194,459	323,576*

Source: CSA, 2003, 2006 and 2011

The study also established that social improvement through the current regime of Meles Zenawi, was not only in terms of education and health sector, but also in all other sectors of social development. For example, in table 4 below, the percentages of the performance of drinking water supply coverage in the country registered an improvement in every five years. Clean drinking water is a key development target with massive impact on health and economic progress.

Table 4: Drinking water supply

Year	1995	2000	2005	2010
National %	19.1	34	35.9	68.5
Rural %	9.6	25	25.2	65.8
Urban %	72.1	85	92.4	91.5

Source: CSA, 2003, 2006 and 2011

The breakthrough in health, education and water supply, can contribute to wide range of social developments in a country and reduce poverty frequency. The poverty levels which were more than 50 percent in the final years of the derg regime, gradually declined to 49.5 in 1995 and 41.9 percent in 2002. Therefore within the early years of Meles in power, the poverty levels had declined by around 8 percent. In the peak moments of Meles' regime, poverty levels declined from 41.9 percent in 2002 to 29.6 percent in 2010. Its decline was about 11.3 percent in that period.

A trained retired Economist army general, in a night club in Saris, a place in the outskirt of Addis Ababa, in a bid to appreciate the fallen hero (Meles) and also talking about a brief history of the governments he served (Derge and EPRDF), drunk but with his senses, said that: "at some point the EPRDF government, led by Prime Minister Meles Zenawi, managed to trim down poverty prevalence by close to 20 percent". Within the same number of years, due to diverse development paradigm shifts, Ethiopia experienced higher improvements in social welfare that brought remarkable social development in the country. Life expectancy at birth for example declined sharply in the 1980s, from 52 years in 1984 to 46.4 years in 1991, most likely because of the HIV/AIDS pandemic¹⁸⁰, civil war and famine. The government of Ethiopia has been taking health care services and improvement measures seriously since early 1990s. It has improved life expectancy from 46.4 years in 1991 to 59.3 in 2011. In the same way despite the regular cycle of droughts in parts of the country, the number of emergency beneficiaries has dropped from 15 million in 2003 to a maximum of 5.6 million.¹⁸¹

Table 5: Poverty frequency

Year	1995	2000	2005	2010
National poverty levels (%)	49.5	41.9	38.0	29.6
Rural poverty levels (%)	51.6	41.1	38.5	30.4
Urban poverty levels (%)	36.5	46.7	35.3	25.4

Source: CSA, 2003, 2006 and 2011

The findings above speak generally of the whole country of Ethiopia. However since the

researcher had different respondents from almost all regions in the country, it's imperative that

we now get some deep treatment from the different regions.

Regionally, in an interview with a social worker working with one of the NGOs operating in

Ethiopia reported that in past two years the level of individuals requiring medical care had

increased tremendously. According to him "there is no enough health facilities, the ones that are

available are in deplorable conditions. This scenario has exacerbated mortality rate." According

to the social worker the scenario has slightly improved from 1991 when Derg government was

ousted from power. He continued to say "during the Derg regime, things were worse for

example you could only find one health facility in one entire region."

Despite the fact that things have changed, it can be noted that military spending is still high. The

resultant implication is that vital sectors such as health care will continue to suffer from limited

budgetary allocations. Respondents interviewed observed that urban region of Dire Dawa for

example 67 percent of the people suffer from poor health. In rural areas malaria continues to be

the most common illness; it accounts for 44 percent of all reported ailments. This view is

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corroborated by the Citizen Report Card (CRC)¹⁸² that postulates that 98 percent of Ethiopians sought treatment in 2008.

The report further assets that less than one-third of rural dwellers use toilets. In addition the report notes that more one-third of rural dwellers have to travel further than 10kilometers to reach a health facility. Despite the above challenges the respondents interviewed believe that health and sanitation services have improved in post Derg regime as compared the Derg regime.

It can be construed from the table below that health and sanitation was a major problem during the Derg regime where the level of satisfaction in the two regions (Tigray and Oromiya was a paltry 25 percent). Asked on the glaring discrepancy, respondents interviewed were of the view that the Derg regime spent a lot of national resource in building the army thus neglecting other vital sectors of the economy – health sector.

<u>Table4:1 satisfaction with health and sanitation services in different regions</u>
(in percentage)

Regime	Derg Re	gime	Post Derg Regime		Derg Regim e	Post Derg Regime	Derg Regime	Post Derg Regime
Health Services	Tigray	Oromiya	Tigray	Oromiya	Rural Total	Rural Total	Dire Dawa	Dire Dawa
Ability to access health care	34 .6%	23.7%	45.7%	36%	30%	56.7%	45%	62.8%
Equipment	-	-	-	-	-	-	-	-
Availability of doctors	30%	25%	38%	34.3%	20%	58.1%	32%	57.4%
Availability	20%	10%	40%	38%	22.5%	57%	30.1%	57%

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¹⁸² Eshetu Bekele (2008) The Case of Report Cards (CRC) in Ethiopia: enhancing social accountability through community empowerment to facitate PASDEP/PRSP implementation: a paper presented at HDCA 2006 annual meeting.

of drugs								
Overall								
satisfaction	30%	20%	38.1%	35.4%	20.8%	40%	30%	45.2%
of health								
services					10			

Source: PANE. CRC 2008¹⁸³

Despite the fact that it has improved in post Derg regime, the post Derg still spends a significant amount of resources on defense. The study found out that access to health facilities is still a major problem for the majority of rural communities in Ethiopia. In all the regions more than one third of the people need to travel more than 10 kilometers to reach the nearest health facility. As the table shows the most pronounced region is Tigray where a half of the population needs to travel this distance.

In the education sector, the study established that despite the fact that Ethiopia has continued to spend a significant amount of money in equipping its defense force (see table 4.1) it is imperative to note that the education sector has continued to grow though in a slow pace. During the Derg regime for instance, the structure and organization of educational activities were changed alongside the objectives of the socialist government ¹⁸⁴. The study established that the Derg regime nationalized all private schools, except church-affiliated ones, and made them part of the public school system. Soon after the military government initiated reforms of the education system based partly on ESR recommendations and partly on the military regime's socialist ideology.

As shown in the table below, the sector has expanded greatly since 1974. Between 1975 and 1990, primary enrollment continued to increase at the rate of 12% per annum thus covering about

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¹⁸³ PANE, CRC 2008

¹⁸⁴ Eshetu Bekele, Op cit (2008)

38% of the school age group¹⁸⁵. Junior and secondary school enrollment also increased at about the same rate. By 1990, about 12% of the secondary school age population was enrolled in secondary schools.

Although the problem of absorbing even the majority of secondary school leavers was becoming apparent by the mid-1980, the study established that the government deemed it wise to stress the importance of education for the society as well as the individual. Primary school participation exceeded 42 % of the relevant age group in 1983/84 and was 16.4

% in junior secondary schools. Participation in grades 9-10 and 11-12 reached 11 % and 7 % respectively during the same period ¹⁸⁶.

Table 4.2.1 Summaries of Education Data (1974/75-1983/90)

	1974/75				1989/90			
Level	No. of schools	Enrollment	No. of teachers	No. of schools	Enrollment	No. of teachers		
Primary	3166	959000	21000	7125	2795000	48000		
Junior secondary	507	124000	3800	829	295000	6000		
Senior secondary	125	65000	2500	201	286000	7300		

Source: Author's computation from MOE data, Education in Socialist Ethiopia, 1990187

It was evident from the study that there were also changes in the distribution and number of schools and the size and composition of the student body. The data obtained from the MOE

¹⁸⁵ Data obtained from MOE, Education in Socialist Ethiopia, 1990

¹⁸⁶ Ibid

¹⁸⁷ computation from MOE data, Education in Socialist Ethiopia, 1990

shows that the military regime worked toward a more even distribution of schools by concentrating its efforts on small towns and rural areas that had been neglected during the Imperial regime. In large part because of the military regime, the study established that the number of primary schools grew from 3,166 in 1974/75 to 7,125 in 1989/90, an average increase of 428 schools annually ¹⁸⁸. It was also evident from the data gathered that the number of primary schools increased significantly in all regions except three, including Eritrea and Tigray, where there was a decline. While there were significant expansions, the study established that there were still variations among regions in the number of students enrolled and a disparity in the enrollment of boys and girls during the Derg regime. Nevertheless, while the enrollment of boys more than doubled, that of girls more than tripled. The data obtained shows that urban areas had a higher ratio of children enrolled in schools, as well as a higher proportion of female students, compared with rural areas.

The study established that the military regime prioritized to expand non-formal education to boost literacy levels. According to the findings of the study a major move towards expansion of non-formal education was made by the Socialist regime. Two main programs were launched, the National Work Campaign for Development through Cooperation, and The Ethiopian National Literacy Campaign. As it was reported by one respondent during an interview schedule "One of the success stories in the socialist regime has been the achievement in terms of reduction of illiteracy rate in the country." The study was informed by a respondent that the socialist regime initiated national literacy campaign in early 1975. To progress this initiative, it was reported that the socialist government mobilized more than 60,000 students and teachers, sending them all over the country for two-year terms of service. This experience was crucial to the creation in

¹⁸⁸ Ibid

1979 of the National Literacy Campaign Coordinating Committee (NLCCC) and a nationwide effort to raise literacy levels. The post Derg continued to invest in the education of the Ethiopian people in tandem with military spending. The study established that the post Derg regime endorsed a New Education and Training Policy, which saw enrollment in primary education stand at about 2.81 million. This figures included over-age pupils that amount 34 % of the school-age population. Likewise, enrolment ratio in secondary level stood at about 15% and in the third level at 1 %. The study established that since the introduction of the New Education and Training Policy and a comprehensive development program for the sector, i.e., the Education Sector Development Program (ESDP), encouraging records have emerged in terms of coverage.

Table 4.2.2 Gross and Net Enrollment ratios at primary level (1-8) (1999-2009)

	Net En	rollment ra	Gross Enrollment ratio			
Year	Male	Female	Total	Male	Female	Total
1999/00	51.2	36.6	44.0	60.9	40.7	51.0
2000/01	55.7	41.7	48.8	67.3	47.0	57.4
2001/02	59.0	45.2	52.2	71.7	51.2	61.6
2002/03	60.6	47.2	54.0	74.6	53.8	64.4
2003/04	62.9	51.8	57.4	77.4	59.1	68.4
2004/05	63.8	52.9	59.8	79.1	61.3	70.0
2005/06	65.4	57.7	61.2	82.2	63.2	72.1
2006/07	66.0	61.3	64.2	83.1	63.8	73.0
2007/08	70.5	65.6	68.4	84.2	64.5	75.1

¹⁸⁹Data obtained from Education Management Information System, (EMIS), MOE, 2009, Addis Ababa.

2008/09	74.1	70.5	74.4%	86.1	68.8	77.8

Source: Authors computation from Education Management Information System, (EMIS), MOE, 2009 Data, Addis Ababa.

Aggregate enrolments in Grades 1-12 rose at a steady pace of about 9% a year between 1994/95 and 2003/04, and in grades 1-4, which is the first cycle of primary schooling, it grew even faster at an average of 15% a year. The education coverage at primary level, which was 26.2% in 1994/95 rose to 74.4% in 2008/09. The rural primary education coverage has increased on the average at the rate of 31.5% between 1994/95 and 2008/2009. The increment for females is also encouraging. 190 Although there is an encouraging sign towards the achievement of universal primary education (UPE) by 2015, the gross enrollment ratio is not a good indicator of primary school coverage for it includes the over- and under-aged children. Net enrollment ratio is the best way of measuring school coverage and refined indicator of access. From the table above an analysis of NER data in Ethiopia shows that Ethiopia has a low chance of achieving UPE in 2015. According to the Education for All (EFA) Global Monitoring Report (UNESCO 2006), only those countries whose NER is 80% and above currently can achieve UPE in 2015. 191 In this respect Ethiopia faces a great challenge with 74.4% NER in 2008/09. If the Net Enrolment Ratio (NER) is considered, the number of out of school age children is very high (42.6%). It is even worse for girls. From the above discussion it's evident that despite high military spending in both regimes the provision of education services has continued to improve to some levels. This leads us to accept the null hypothesis that high military expenditure has not affected the provision of education services in Ethiopia.

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¹⁹⁰ Education Management Information System, (EMIS), MOE, 2009 Data, Addis Ababa.

¹⁹¹ UNESCO (United Nations Educational, Scientific and Cultural Organization); 1955-2006 World Survey of Education. Paris.

4.3 Military Spending and Employment in Ethiopia.

This is the second objective of the study that sought to find the correlation between military expenditure and employment. The Marxist critique of the 1960s was that defense spending was a necessary, albeit wasteful, policy to stabilize and expand capitalism (Baran and Sweezy 1968). They would argue that under consumption and the unemployment associated with it would be diminished with increased defense spending, and capitalism would resort to such spending to reduce class conflict. However, the hypothesis that increased military spending should indirectly create increased employment in the armaments industry and directly create more jobs in the armed forces seems intuitive even to those would disagree the tenants of Marxist economics. One concern about the alleged peace dividend after the end of the Cold War was that disarmament will create unemployment. Indeed, the recent soft labor markets in California and Connecticut have been blamed on reduced defense spending. In spite of this intuitive relationship, Chester (1978), Smith (1978), and deGrasse (1983) could not find a statistically significant relationship between military expenditures and unemployment. In his survey article of the literature, Lindgren concludes that "the relationship between military expenditures and employment seems too complex to capture by correlation or regression methods" 192. Recent studies confirm these earlier findings. Dunne and Smith (1990) find no Granger causality between the share of defense spending and the unemployment rate in nine out of 11 countries. Using data from 1962 to 1988,

Paul (1996) tested various economic hypotheses about the relationship between unemployment and defense and non-defense spending in 18 countries. However, Paul was unable to find a

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¹⁹² Lindgren, 1984, p.381.

uniform relationship between these variables across the various nations¹⁹³. In the case of Ethiopia, the study established that during the Derg regime employment declined both in rural and in urban areas. This is attributed to the fact that the government support was for the agriculture sector negligible (2.5 % of the GDP). The agricultural sector is main source of employment for many Ethiopians thus the failure in the sectors means loss of jobs to many individuals. As table 4:4 indicates, in rural areas, the levels of employment has decreased both for men and for women, almost equally, with a loss of 1,134,000 employed units between 1974 and 1979.

Table 4.3.1 Trends in Rural Employment

Employed p	opulation ('(Employme	ent rate (in %)	
Male	Female	Total	Male	Female
5,145	4,150	9295	42.3	34.5
4,250	3,113	7,363	38.4	30.2
13,318	10,263	23,581	56.1	43.2
12,511	9,931	22,442	55.6	44.1
	Male 5,145 4,250 13,318	Male Female 5,145 4,150 4,250 3,113 13,318 10,263	5,145 4,150 9295 4,250 3,113 7,363 13,318 10,263 23,581	Male Female Total Male 5,145 4,150 9295 42.3 4,250 3,113 7,363 38.4 13,318 10,263 23,581 56.1

Source: Authors computation

In urban areas, despite the marginal increase in absolute terms (some 35,000 units) between 1979 and 1984, the employment rate decreased from 48.2 per cent in 1999 to 40.9 per cent in 2009, with a sharper decline for women than for men, as can be seen in table 4:5. The study establishment that urban employment increased for persons aged 20-44, with the largest decline hitting the age group 10-19. Increased access to education may account for this phenomenon.

¹⁹³ Dale Bremmer, The Opportunity Cost of Super Power Status:

The Tradeoff Between Defense Spending and Economic Prosperity Pg 4

The study also established that unlike in accepted international definitions, Ethiopian official statistics include children in the economically-active population. In 2009, 71.4 per cent of children aged 5-14 were engaged in domestic and productive activities including household agriculture enterprises, household non-agriculture enterprises and paid agriculture and non-agriculture enterprises, paid domestic services and self-employment. Similarly, the study found out that in 2009, 15.4 per cent of children aged 5 years were employed in domestic and productive activities respectively. According to one respondent from Dilla, south of Ethiopia, "children in rural areas are more likely to be participating in productive activities than children in urban areas."

Table 4.3.2 Trends in Rural Employment

Employe	ed population ('000)		Employment rate (in %)			
Year	Male	Female	Total	Male	Female		
1979	1054	956	2000	51.2	38.2		
1989	1459	1243	2702	57.4	40.5		
1999	1629	1230	2859	51.8	34.8		
2009	1541	1196	2737	48.9	33.7		

Source: Authors computation

From the above discussions it is clear that employment has been decreasing in Ethiopia since the Derg regime. This can be attributed to high military expenditures at the expense of other sectors like agriculture which is the main source of employment among many Ethiopians.

4.4 Military Spending and Poverty Levels in Ethiopia

It is imperative to note that reliable data to establish the levels of poverty in Ethiopia is not available; however this study used infant mortality and life expectancy to create a nexus between

military spending and poverty in Ethiopia. A glean through data from local NGOs, Public and Mission hospitals in Ethiopia indicate that during the military socialist regime the number of mortality rate was high. This was compounded by decline in living standards in rural areas. The study established that during this period (Derg regime) the gap between urban and rural areas increased.

Table 4:4.1 Life expectancy, Infant Mortality and Child Mortality, 1974-2009

Year And Cluster Region	1974	1990	1990	2009
	Rural	Urban	Rural	Urban
Life expectancy at birth - men	50.7	53.3	48.7	53.7
Life expectancy at birth - women	52.8	56.8	51.0	57.2
Life expectancy at birth – all	51.7	55.1	49.8	55.4
Under 1 mortality rate – male	118	103	104	85
Under 1 mortality rate – female	131	103	112	81
Under 1 mortality rate – all	112	94	122	93
Under 5 mortality rate – male	167	144	170	119
Under 5 mortality rate – female	188	144	162	135
Under 5 mortality rate – all	157	125	179	131

Sources: Calculated from various regional reports of the 1974,1984,1994,2004 Census

As with all indicators presented, the levels of deprivation implied by the data from NGO reports are close to the worst in the world. Life expectancy for both men and women declined by 2 years in this period, to less than 49 years for men and 51 years for women in rural areas. Under-one-

mortality rates (the number of babies not surviving past one year of age per 1000 children born alive) have increased in this period (Derg regime) to 131 for men and 112 for women ¹⁹⁴.

These decreases in life expectancy and the increases in infant and child mortality in rural areas relative to urban areas are remarkable. They are a reflection of the large increases in deprivation in rural areas in line with rural neglect, the political and economic context during the 1974s and the long-term consequences of military expenditure and the famine of the mid-1980s. In one of the NGOs report it was argued that there were some signs of limited improvement in the standard of living in Ethiopia in the 1990s, mainly based on some improvements in literacy. Despite the currently high levels of poverty and deprivation, there is some further evidence on at least a limited recovery in rural areas based on consumption poverty.

The Economics Department of Addis Ababa University and the Centre for the Study of African Economies, Oxford constructed a panel data survey based on six villages (about 400 households) in different parts of the country. While the sample is not representative, the villages selected had all suffered considerably in the 1974-1990 Derg political reign.

4.5 Military Spending and External Debt in Ethiopia

Ethiopia comes at or near the bottom of several global rankings. In its various World Development Reports, the World Bank locates it on the lowest rung on a per capita income basis. The United Nations Development Program's Human Development Report ranks it third from the bottom. These are all reflections of the miserable conditions in the country. Pankhurst 195 notes

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¹⁹⁴ Stefan Dercon (2009) ETHIOPIA: Poverty Assessment Study: report for IFAD

¹⁹⁵ Pankhurst, R.,(1967) *Economic History of Ethiopia*, Addis Ababa, Haile Selassie University Press.

that these conditions remain despite, and sometimes because of, long-running and significant external assistance that has been, and continues to be, a permanent feature of the country's history. Before 1945, and going as far back as five centuries, the country sought defense-related assistance to protect itself from invasions. During the post-World War II period, dependence on external assistance increased in intensity and broadened in coverage to include both the defense and economic arenas.

Alemayheu and Befekadu¹⁹⁶ observe that the country's dependence on external resource inflow in the form of credit and grant aid has now reached the stage where it cannot survive without it. A considerable proportion of government expenditure on the most basic services is made possible by grants and external credit. During the 1990s for instance, external grants and loans financed no less than a quarter of the government's total expenditure.

In an interview with the head of Ethiopian studies, Prof.Gabru Tareke, Addis Ababa University, he said that despite the many benefits derived from external assistance, the military spending in Ethiopia has at the same time become a hindrance to the country's development. The University don added that in particular, the external debt burden has grown to an impossible level, claiming twice what the country earns from its exports of goods and services. Alemayheu and Befekadu¹⁹⁷ summarize this scenario by noting that "if Ethiopia were a company rather than a sovereign country, it would have been declared bankrupt and would have ceased to exist long ago. To a larger extend this is attributed to the large military and the spending that comes with it.

Alemayehu, G. and B. Degefe, (1999) Management Transition from Aid: Dependence in Ethiopia, in Lancaster,
 C. and S. Wange, eds., *Managing Transition from Aid in SSA*, Macmillan.
 Ibid

Ethiopia's external debt has changed significantly in magnitude, structure and composition over the years. In 1974, the Imperial regime was overthrown by a military junta (Derg) whose first budget was issued June 30, 1975. As shown, the stock of external debt the Military regime inherited from the Imperial government as of that date was US\$372 million, or 14% of GDP at current prices ¹⁹⁸.

In May 28, 1991, the military government was in turn overthrown by the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF), whose first budget was issued June 30, 1992. At that time, the country's external debt stood at US\$3.5 billion and 3.1 billion rubles¹⁹⁹. In dollar terms, the country's total debt stock at the commencement of the new regime stood at US\$8.8 billion, equivalent to 95% of GDP at current prices. Thus, during its 17-year tenure, the military government increased the country's total debt 24-fold, at an annual average growth rate of 21%. The growth in the indebtedness can be mainly attributed to the arms procurement due to the internal war that was going on at the $time^{200}$.

As of June 30, 2009, the total external debt stock had increased to an equivalent of US\$10.2 billion, of which US\$5.9 billion was owed to Russia and the balance of US\$4.3 billion to other multinational, bilateral and commercial creditors. This amounts to an annual growth rate of 2% of GDP over the intervening eight years. As of June 30, 1999, the total official bilateral debt (excluding the rubledenominated debt) amounted to about US\$1.4 billion, representing 15% of the total external debt and 33% of the debt excluding the ruble-denominated debt. Of this, US\$0.6 billion or 44% of the non-Russian bilateral debt was owed to the Paris Club creditor countries, while the balance of US\$0.8 billion or 56% was owed to the non-Paris Club creditors. The relative shares of the Paris Club and the non-Paris Club creditors in 1992 were 52% and 48%, respectively. The decline in

¹⁹⁸ Alemayehu, G. and B. Degefe, (1999) op cit ¹⁹⁹ 3.1 billion rubles is equivalent to about US\$5.2 billion (the exchange rate was 0.6 ruble to US\$1 at the time).

²⁰⁰ Pankhurst, R.,(1967) op cit

the share of the Paris Club creditors over the years is due to debt cancellation and rescheduling, whereas the increase in the share of the non-Paris Club creditors is due to the increase in accumulated arrears. Of the debt owed to the non-Paris Club creditors, the lion's share is the ruble-denominated debt owed to the Russian Federation, which, as of June 30, 1999, amounted to 3.5 billion rubles or US\$5.9 billion at the exchange rate of

The study found out that domestic financing of government deficit as a percentage of GDP averaged 4.2% during the military regime and declined to a mere 1% between 1992 and 1998. Foreign financing, however, increased from 4.9% of GDP for the 1975-1990 periods to nearly 8% of GDP during the 1992- 1998 period. Obviously, such fiscal policy in general and the limits imposed on government borrowing from domestic sources in favour of external financing have had important repercussions on social conditions and on the country's external debt. Specifically, the reduction of tax rates, particularly on international trade and on business profits, reduced government revenues and increased dependence on grants and credit from abroad. It also forced the government to relinquish its assistance to low-income people in the form of subsidized education, health and basic necessities. This has sharply increased income inequality in the country, dividing the population into two segments: the extremely rich business class and the majority, who are sinking below poverty. Such developments, unless redressed, can generate resentment and social instability. This aspect of fiscal policy should become a major subject for negotiation in the process of developing the poverty-reducing growth strategy and the post-debt-relief regime because this is likely to continue to increase external debt and the obligations that go with it.

The resultant effect of the above high military spending and budgeting has been two fold. The first impact is that the rise in military spending has exerted a negative impact on the rate of

investment in (public and private) productive fixed capital in Ethiopia²⁰¹. This has occurred because of well-known crowding-out effects: an increase in military spending has been financed either by raising current taxes or by borrowing (future taxes). This has lowered the expected after-tax return on productive fixed capital, while simultaneously reducing the flow of (domestic plus foreign) savings that is available to finance productive fixed capital formation in the domestic economy.

The second impact of the high military spending in Ethiopia has been its impact on resource allocation. Since military spending in Ethiopia is not governed by market processes, it has tended to create distortions in relative prices that have resulted in a dead-weight loss to total productive capacity. In addition, it has exerted negative externalities on capacity output²⁰². This in turn has affected the growth rate by increasing contemporaneous taxes and increased borrowing to finance higher military spending; the high levels of borrowing (external and internal) have resulted to high inflation rates thus leading to distorted resource allocation. Secondly research and development activities have concentrated on military progress at the expense of technological advances in economically-productive areas. Thus must of industries are labour intensive at the expense of being capital intensive.

The huge defense-related loans from the former Soviet Union had a decisively adverse impact on growth. Their intensive use diverted human, physical and financial resources in waging wars in which large numbers of potentially productive young people were killed and maimed, and social

²⁰¹ E. BENOIT, Defense and Economic Growth in Developing Countries, Lexington Books, Toronto-London, 1978 ²⁰² Ibid

and economic infrastructure was destroyed, generally disabling productive capacity in the areas of conflict.

The current government has reversed the policy stance of the military regime and has initiated extensive reforms. GDP and export earnings are located on a higher growth trajectory. Per capita income is on a points that need to be made at this juncture are that the current debt burden is the making of the previous regime and that recent reduction in the rate of growth of debt is partly due to the debt forgiveness and restructuring, as well as the slowing down of the rate at which new debts were contracted.

The positive contribution of external borrowing notwithstanding, it is important to note that there is a limit beyond which it has negative effects on the economy. In two recent papers, ²⁰³ generated a Laffer curve of debt establishing a critical threshold beyond which debt impacts negatively on growth and investment. On the basis of their results, debt in excess of 97% of GDP is likely to have a negative impact on investment and growth. With respect to the private sector investment, they posit that a debt to GDP ratio greater than 33.5% would generate a depressive effect by reducing investment. In the Ethiopian experience, both of these thresholds have long been surpassed and have assumed impossible magnitudes. The impact of the debt burden is most acutely felt by the private sector, whose investments are crowded out by the servicing of foreign debt, and existing plants remain underutilized due to a shortage of foreign exchange. Even where foreign exchange is obtained through the competitive market, the resulting depreciation of the domestic currency renders domestic plants uncompetitive relative to imports. The net effect is that the servicing of foreign debt reduces the supply of foreign exchange, which in turn reduces

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²⁰³ Befekadu, D., (1992) "Growth and Foreign Debt: The Ethiopian Experience 1964-86," Research Paper No. 13, Nairobi, AERC.

the volume of strategic inputs (including capital goods, raw materials, and spare parts) that would have contributed toward pushing the economy to the full employment frontier.

External borrowing has had two important effects on Ethiopia's economy and on the welfare of the people. First, it has increased the volume of resources available both for consumption and investment as shown above. Second, the negative effect of external debt is the growth of the volume of repayments (interest and principal) beyond the country's capacity, which has resulted in the gradual build-up of arrears. The responsibility of meeting its international obligations, while at the same time satisfying the population's basic needs and laying the minimum developmental infrastructure for future generations, has become an impossible task.

4.6 Military spending and Social Insecurity.

The military expenditure has also affected social security in Ethiopia. A glean through literature and policy papers indicate that there is a relationship between military spending and social insecurity in Ethiopia²⁰⁴. This relation can be discussed as follows: The military expenditure of the Ethiopian government increased from 106.5 million birr in 1974 to 2.3 billion birr in 1990/91 (a 2075 per cent increase). An estimated 35.7 billion birr were spent on the military between 1974/75 and 1990/91. The defense budget, according to official statistics, increased from 11.2 per cent in 1974/75 to 36.5 per cent in 1990/91²⁰⁵. But according to other estimates it stood at 50 per cent already in 1988²⁰⁶, with further increases in subsequent years. The proportion of the national budget allocated to health, on the other hand, declined from 6.1 per cent in 1973/74 to

²⁰⁴ Ball, Nicole, 1984. 'Measuring Third World Security Expenditure: pp. 157-164.

²⁰⁵ Negarit Gaz eta (1973) 32(20), 116-8.

Eshetu Chole (1989) The impact of war on the Ethiopian economy. Paper presented at the Fourth Annual Conference on the Horn of Africa. City College of the City University of New York, 26-28 May.

3.5 per cent in 1985/86 and 3.2 per cent in 1990/91²⁰⁷. The annexation of Eritrea by Ethiopia in 1952 led to the rapid deterioration of the health care system in that region. By 1962, the health budget for Ethiopia had been cut by two thirds, and bureaucratic restrictions reduced the efficiency of the services further. Thus it's imperative to note that high military spending in Ethiopia affected allocation to the health sectors thus affecting service delivery that led to vulnerability of the citizens.

4.7 Military spending and Dependency.

The study established that military spending in Ethiopia had established a chain of dependency in foreign aid and external donors. In practice, military sales are not always separated from civil sales. For example the trade between Ethiopia and the Paris club, Russia, and the USA on military equipment does not benefit the Ethiopian economy but it promotes the industries in this countries. An example is Russia. First, before any relations existed between both countries, a military assistance programme was set up. Later, a study was published about new contracts with Russia. The first financial aid of 22 million dollars, a few years later, resulted in contracts of ten times this amount for supplies in the civil sector. Indeed the study established that development assistance as well as military aid can be a first step towards cooperation between states. This aid can be very profitable as shown in the above example. The State is the promoter of arms trade, but this has of course nothing to do with development assistance as is the case with Ethiopia. In this case, dependency on military supply has led to dependency in other economic sectors that has in the long run perpetuated poverty and underdevelopment in the agricultural education and healthcare sectors. The problem of dependency is what led to the fall of the Derge government as

²⁰⁷ Negarit Gazeta op.cit

when Russia stopped supplying armaments to Mengistu his armed forces became weak: fighting many battles with less arms and as a result he was defeated.

4.8 Conclusions

The study has found out that military spending has had economic impact in Ethiopia's economic welfare. The study revealed that military expenditure had exacerbated Ethiopia's debt burden. Ethiopians debt has had various consequences. One of them has been dependency on the Western World, providing the money. The study found out that Ethiopia found surprisingly less restraint in obtaining credits for military purpose, although they concern non-productive investments. This was worse during the *Derg's* rule. Ethiopian arms imports increased dramatically in the second half of the 1970's. In addition, there were numerous conflicts deteriorating its economy. In the early 1980's, arms imports decreased, mainly, for economic reasons.

A large proportion of the imports of the Ethiopian state were in the form of military aid. The military build-up of Ethiopia was made possible by the burgeoning coffee sector. Generally, the only way for arms supply was by selling their raw materials. Natural wealth was sold for arms, instead of using it for national development. High debt burdens have often been aggravated by weapon purchase, first, because weapons are expensive, secondly, because scarce money was diverted to non-productive activities. Ethiopia remains dependent on the donors and arms trade has increased this dependency. Military expenses in Ethiopia have withdrawn raw materials from the civil to the military production, as such decreasing new possible revenues which would enable countries to pay their debts or start new productive investments. The study established that military spending had contributed to plunder of resources. In some instances the raw materials were exchanged for arms thus the foreign income were not utilized to develop social

amenities like schools, hospitals or industries but it was used to equip the already bloated military. The study established this kind of arrangements led to an exploitative relationship were the western countries benefited at the expenses. As to the impact of military spending on economic welfare, there is no consistent theory developed to rely up on. The neoclassical approach sees the state as a rational actor which balances the opportunity costs and security benefits of military spending in order to maximize a well defined national interest reflected in a societal social welfare function. Military expenditure can then be treated as a pure public good and the economic effects of military expenditure are determined by its opportunity cost, with a clear tradeoff between civil and military spending. This theoretical anchored this study. It provided platform through which the objectives of the study. Through this theory the study has discussed how the military spending has impacted the economic welfare of Ethiopia. That is to say, that military spending has contributed to the large debt burden that Ethiopia has experienced over time.

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS.

5.1 Introduction

This section gives summary of the study, conclusions based on the objectives of the study and recommendations for future actions are also elucidated in this section.

5.2 Conclusions.

Military spending is an expenditure by governments that has influence beyond the resources it takes up, especially when it leads to or facilitates conflicts. The study has found out that military spending has had economic impact in Ethiopia. The study found out that military expenditure had exacerbated Ethiopia's debt burden. Ethiopians debt has had various consequences. One of them has been dependency on the Western World, providing the money. The study found out that Ethiopia found surprisingly less restraint in obtaining credits for military purpose, although they concern non-productive investments. This was worse during the *Derg's* rule. Ethiopian arms imports increased dramatically in the second half of the 1970's. In addition, there were numerous conflicts deteriorating its economy. In the early 1980's, arms imports decreased, mainly, for economic reasons.

An outsized quantity of the imports of the Ethiopian state were in the form of military aid. The military build-up of Ethiopia was made possible by the burgeoning coffee sector. Generally, the only way for arms supply was by selling their raw materials. Natural wealth was sold for arms, instead of using it for national development. High debt burdens have often been aggravated by weapon purchase, first, because weapons are expensive, secondly, because scarce money was diverted to non-productive activities. Ethiopia remains dependent on the donors and arms trade has increased this dependency. Military expenses in Ethiopia have withdrawn raw materials from the civil to the military production, as such decreasing new possible revenues which would enable countries to pay their debts or start new productive investments.

The study established that even though the regime in question amassed a lot of resources on military, the trend did not change much in the EPRDF regime. The only time the military was downsized was in 1991 where the whole army was disbanded and replaced with a gorilla force that was not as many as the previous regime. Military spending had contributed to plunder of resources in the sense that revenue that was accumulated from the sales of raw materials went directly to the defense. Some people even argue that there were instances whereby raw materials were exchanged for arms (though this allegations could not be proved) thus the foreign income were not utilized to develop social amenities like schools, hospitals or industries but it was used to equip the already bloated military. The study established this kind of arrangements led to an exploitative relationship where the western countries as a result benefited at their expense.

5.3 Policy Implication

The impact of military spending in Ethiopia underscores economic welfare volatility. In view of its impact on economic position, compared even with Sub-Saharan Africa, and considering the

higher rate of population growth, the rate of military spending does not signal sustainability. Government expenditure, as a means of fiscal instrument, cannot play its expected role to reverse the situation. In this regard it is interesting to draw some policy implication from the findings of this study.

First, besides prioritization of public expenditures, government spending in Ethiopia should be judged not only by virtue of its economic returns, but also the technical, administrative and financial feasibility should be considered. Proper measure of cost and benefits of various governments spending (especially the military) is essential in this respect. A clear set of specified criteria for deciding the allocation of resources avoid arbitrary allocations and rent seeking by promoting transparency and accountability.

Secondly, prudent fiscal policy should be pursued to widen and strengthen the revenue base in order to avoid costly or distortionary financing of the ever increasing government military expenditure. For example, much dependence upon foreign resources in financing major capital expenditure (military procurement) did not create favorable condition to run long-run government investment programs as demanded. We see massive inflow of foreign resources in one time and complete disruption in other time based on donors' conditionality. Depending on such unreliable means of financing will consequently lead to instability and disruption.

Governments should tackle social insecurities which always start as structural violence to structural conflicts which escalates to physical conflicts. For good governance, Internal security must be dealt with first before thinking of External relations: Taking part in conflicts of neighboring countries and yet the subjects at home aren't satisfied with the service delivery of

your government can be very disastrous. Fighting too many battles means consuming more than required in funding wars and shrivel other social sectors like health and education.

Finally, government has a bigger responsibility in creating stable and conducive economic and political environment, building general consensus and mobilizing its people in development endeavor if the country has to direct itself into long-run growth path.

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APPENDICES



Questionnaire

Dear Sir / Madam,

You are humbly requested to fill the research questions below to enable Mr. Kithi Jonathan Alexander to accomplish his research project on "THE EFFECTS OF MILITARY SPENDING ON ECONOMIC WELFARE" A CASE OF ETHIOPIA (1974 – 2010). This research will be a partial fulfillment for the award of an M.A degree in International Studies at the University of Nairobi.

The findings and outcome of this research project will be treated with confidentiality and only restricted for academic purposes. Thank you in anticipation. Below are the questions.

1.	Age		
	18-25	25-32	32-39
	39-45	45-50	50 and above
2.	Gender.		
	Male	Female	

3.	Educational level				
	Primary Secondary Tertiary University				
4.	Among the three regimes that have ruled Ethiopia for the past few decades, which one would you advocate in terms of the ability to serve its citizen?				
In	nperial Regime Socialist (Derg) Regime Transitional (EPRDF) Regime				
5.	Why do you recommend the regime of your choice				
6.	The second regime was under a military Junta Col. Mengistu Haile Mariam. How different was it from the other regimes?				
7.	Comment on military rule in Ethiopia				
8.	In your view how has been the trend of military spending in Ethiopia?				

9. In your examination has military overspending affected the provision of social service?

	Yes	No	
10.	If yes, which services have been affe	ccted?	
11.	Comment on the effect of military sp	pending on education and health sector.	
12. What is the average Gross and Net Enrollment ratios at primary level (1-8)			
	G.E.R	N.E.R	
	Male%	%	
	Female%	%	
13.	Comment on the effects of military s	pending on poverty levels in Ethiopia	
14.	Do you think poverty in Ethiopia is p	pronounced due to the heavily amassing of wealth in	
	the defense sector by different regime	es? Support your answer	

15. Is there any relationship between military and unemployment? Explain your answer.
16 H 4 Tr CG + 14 1 1 6 1 40
16. Has the military expenditure affected the levels of employment? Yes No
17. Please explain your answer above
18. What other services do you know that have been affected by heavy defense spending?
a)b)
c)
yould like to thank everyone who participated in filling this questionnaire and realistically
ing this very important information to help the researcher to complete his study. You have no
a how much you have contributed to this study: both ideally and authentically. Again, thank
all for your cooperation.
End

THE FEDERAL REPUBLIC OF ETHIOPIA AND ITS PROFILE



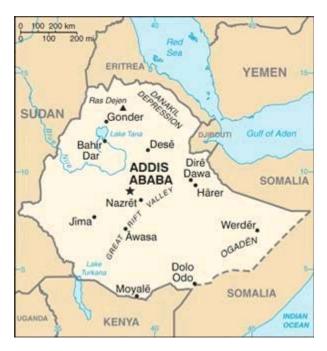


Figure 1

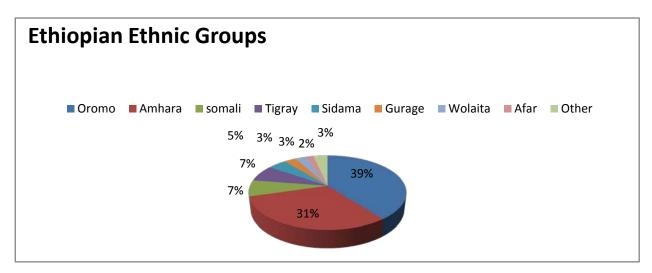


Figure 2

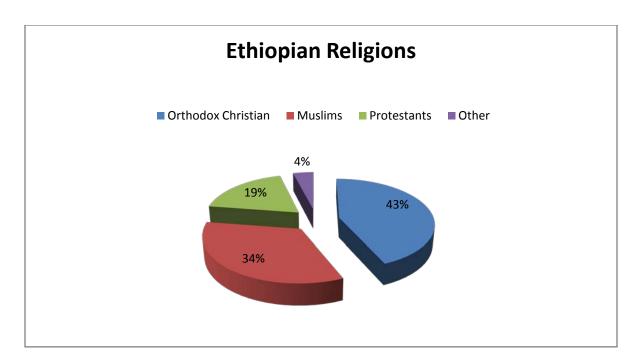


Figure 3

Former Ethiopian Leaders







Emperor Haile Selassie Lt. Col. Mengistu Haile Mariam PM. Meles Zenawi

Ethiopia at a fleeting look

Geography

Area: 1.1 million sq. km (472,000 sq. mi.); about the size of Texas, Oklahoma, and New Mexico combined.

Cities: Capital--Addis Ababa (pop. 3 million, 2010 est.). *Other cities*--Dire Dawa (379,896), Nazret (189,000), Gondar (229,368), Dessie (133.007), Mekelle (238,852), Bahir Dar (199,568), Jimma (132,000), Awassa (176,267).

Terrain: High plateau, mountains, dry lowland plains.

Climate: Temperate in the highlands; hot in the lowlands.

Nationalities

Nationality: Noun and adjective--Ethiopian(s).

Population (est.): 82 million.

Annual population growth rate (est.): 2.6%.

Ethnic groups (est.): Oromo 34.5%, Amhara 26.9%, Tigre 6.1%, Somali 6.2%, Sidama 4%,

Gurage 2.5%, Wolaita 2.3%, Afar 1.7%, other nationalities 3%.

Religions (est.): Ethiopian Orthodox Christian 43.5%, Muslim 33.9%, Protestant 18.6%,

remainder indigenous beliefs.

Languages: Amharic (official), Tigrinya, Arabic, Guaragigna, Oromifa, English, Somali.

Education: Years compulsory--none. Attendance (elementary)--87.9%. Literacy--43%.

Health: Infant mortality rate--77/1,000 live births.

Work force: Agriculture--80%. Industry and commerce--20%.

Government

Type: Federal republic.

Constitution: Ratified 1994.

Branches: Executive--president, Council of State, Council of Ministers. Executive power resides

with the prime minister. Legislative--bicameral parliament. Judicial--divided into federal and

regional courts.

Administrative subdivisions: 9 regions and 2 special city administrations: Addis Ababa and

142

Dire Dawa.

Political parties: Ethiopian People's Revolutionary Democratic Front (EPRDF), the Unity for

Democracy and Justice (UDJ) party, the United Ethiopian Democratic Forces (UEDF), Oromo

Federalist Democratic Movement (OFDM), and other small parties.

Suffrage: Universal starting at age 18.

Central government budget (2009-2010): \$6.0 billion.

Defense: \$341 million (1.14% of GDP FY 2009-2010).

National holiday: May 28.

Economy

GDP (FY 2009-2010): \$29.9 billion.

Annual growth rate (2009-2010): 10.4%.

GDP per capita (2009-2010): \$365.

Average inflation rate (FY 2009-2010): 2.8%.

Natural resources: Potash, salt, gold, copper, platinum, natural gas (unexploited).

Agriculture (42% of GDP): Products--coffee, cereals, pulses, oilseeds, chat, meat, hides and

skins. Cultivated land--17%.

Industry (13% of GDP): Types--textiles, processed foods, construction, cement, and

hydroelectric power.

Trade (2009-2010): Exports--\$2.0 billion. Imports--\$8.4 billion; plus remittances--official est. \$2

billion.

Fiscal year: July 8-July 7.

PEOPLE

Ethiopia's population is highly diverse. Most of its people speak a Semitic or Cushitic language.

The Oromo, Amhara, and Tigrinya make up more than two-thirds of the population, but there are more than 77 different ethnic groups with their own distinct languages within Ethiopia. Some of these have as few as 10,000 members. In general, most of the Christians live in the highlands, while Muslims and adherents of traditional African religions tend to inhabit lowland regions. English is the most widely spoken foreign language and is taught in all secondary schools. Amharic is the official language and was the language of primary school instruction but has been replaced in many areas by local languages such as Oromifa and Tigrinya.