A Poor State and the Challenge of Financing Development, Ethiopia from 1941 to 1974

Shiferaw Bekele[1]

1. Addis Ababa University, Ethiopia

shifbekele@gmail.com

Perhaps the most difficult challenge the Ethiopian government faced since the restoration of the country’s liberation in 1941 from the five year Italian occupation was shortage of cash in its treasury. The average annual national revenue of the country for the 1940s was around fifty million Birr (national currency equal to 25 million US Dollars). So policy makers set in motion a major drive to raise revenues. For the purpose, the eye of the government was focused on the fledgling modern sectors of the economy – trade particularly foreign trade, manufacturing and the service sectors – rather than to agriculture which occupied at the time(in the region of) 90% of the GDP. In the next three decades, the revenue rose more than ten times what it was in the years following liberation. But expenditure rose at a faster rate than revenues. So, the government very quickly started to slide into deficit financing. In the 1940s, deficit financing was negligible. It rose to a very significant number over the next three decades by far exceeding the gains from the increase in revenues. The government turned to external assistance and loans to find the funds for development and even for running the government from time to time.

The paper outlines these developments on the basis of archival sources and on (government) grey literature. In so doing it shows how difficult it was to launch a fast rate of growth of the GDP. In light of these constraints, the performance of the economy – GDP growth rate oscillating between 4 and 5% over the two decades from the 1950s to the 1970s – could be considered impressive.