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AN ANALYSIS OF GOVERNMENT BUDGET IN ETHIOPIA: WITH PARTICULAR REFERENCE TO GOVERNMENT EXPENDITURE 1958-1977 (E.C.)

A THESIS
Presented to the
School of Graduate Studies
Addis Abeba University

In Partial Fulfilment
of the Requirements for the Degree
Master of Science in
Economic Development and Planning

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Ghirmai Mesghena
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ABSTRACT

Among the factors that enable to promote development include, a well prepared development plan, generating and mobilizing resources, proper allocation of these resources, particularly the allocation of financial resources among investment(capital) and consumption(recurrent), and an efficient utilization of the meagre resources that can be mobilized from external and domestic sources.

In Ethiopia, a tremendous growth in budgetary expenditure has been observed. At the same time, this increase in Government expenditure has been going to the recurrent and from it a greater proportion to the non-productive sectors, such as defence and to sustain and run the state machinery. This has been accompanied by a large deficit in the budget of the Government.

The objective of this study is to find out the factors that are considered to be responsible to bring about the tremendous growth in Government expenditure and also to assess reasons for the allocation of Government fund among alternative programs. To meet this end, stepwise regression analysis is employed. This is further supported by additional analysis of factors like institutions and procedures in expenditure allocation. As the case is in the highly developed and least developed countries, Government expenditure in Ethiopia also was affected more by non-economic factors. However, different components of expenditure behaved differently.

Finally, various suggestions are forwarded to mitigate the existing proble. Even though recommendations to increase revenue by tax are to be supported, particular consideration should be made on the role of the Government in promoting socio-economic development and the allocation of expenoiture among alternative programs. The Government cannott continue depending on foreign sources and deficit-financing as the major and permanent sources of financing its expenditure without causing sever consequences to the over all development of the country.

CONTENTS

1.1 STATEMENT OF THE PROBLEM

There is a general agreement in the developing countries that, development is an urgent priority. But the task to bring about development has remained an elusive and difficult one. This is so partly due to the excessive scarcity of financial resources, and also an allocation of these resources which usually doesn't correspond to the need of the country.

Countries at different levels of development and adhering to different socio-economic systems, apply different means to initiate development or to maintain a high level of development they have already attained. As far as the developing countries like Ethiopia are concerned, a significant amount of investment fund is required to initiate development. Almost all studies made in relation to the source of investment fund of the poor nations agree that a task as difficult as development, can only be performed by the direct participation of the government through state budget (1).

In general, government budget is the annual financial plan of a government. It is composed of revenue and expenditure, i.e., it contains the tasks to be performed by the government in a given year, and the means(revenue) required to meet those tasks. A government can partly regulate and control the activities of the private sector and its public enterprises through its fiscal activities included in the budget. Discussion related to the

role of government budget, the scope of the budget in different systems and levels of development are relevant issues in the study to be undertaken, but is delayed for later sections.

As has been elaborated in other studies(21), revenue(tax) collection has many objectives. To mention some, it enables the government to run state affairs(state security, law and order, to meet international obligations etc.,) and to allocate fund for investment. The Ethiopian Government has been mobilizing revenue, the overriding objectives of which are to motivate and enhance socio-economic development together with running state objectives like maintaining the unity and security of the country.

However, it should be realized that socio-economic development depends not only on how much revenue can be mobilized, but also on how the resources so mobilized are allocated and utilized. In other words, it depends on how the revenue is allocated between recurrent and capital expenditures, and also on the allocation structure of capital expenditure(sectoral priority).

In Ethiopia, an increasing amount of budgetary expenditure has been allocated to the recurrent expenditure, and from it to the non-productive sectors, such as defence and running the state machinery. This has been accompanied by a large growing deficit in the budget of the Government. The difference between revenue

and expenditure is financed through external loan and domestic borrowing from banks which is not backed by production. Unless the stated trend is checked and reversed, the Ten-Year-Perspective-Plan document envisages a serious consequence on the country's development effort(38). According to the same document, the economy is expected to grow at an average annual rate of 6.5% during the ten year plan period. In order to attain this level of growth, a high level of investment fund is required which is expected to come from government saving by a strong restraint on the recurrent expenditure. The recurrent expenditure of the Central Government is projected to grow at an average of 6.3%. The projected growth of the components of this recurrent expenditure will be 9.8% for economic services, 9.4% for social services and 3.7% for defence and general administration. The target share of defence and general administration from the total recurrent expenditure is expected to decline from 54.2% in 1976 to 42.3% in 1985. This will allow an increase for the other activities. It becomes logical to raise certain questions at this point.

What factors are responsible for an increase or decrease in government spending. Even though government spending is to a certain extent exogenous, determined by the ruling government, various factors are involved in deciding it. As far as the importance of identifying the factors responsible for the behavior and growth of government expenditure for different categories is concerned, the section of objectives of the study will have an elaboration.

From the points raised above, it becomes apparent that the allocation of Government expenditure seems to be at stake. An inquiry into how the Government's budgetary expenditure are allocated seems pertinent specially at this time, where the desire for survival and development is high, the level of deficit financing is growing tremendously, and the Government is in need of an increasing amount of domestic and foreign financial resources.

1.2 REVIEW OF LITERATURE

All nations, capitalist or socialist; poor or rich, share some common features. They all require certain basic institutions of state machinery to run their state affairs. Of course, the role of the state in the early days has undergone a drastic change in comparison to the present. In the early days the state was thought to act in a given orderly way with minimum interference in the economy and social affairs of the people. Even today in many of the advanced capitalist countries, direct government interference in the economy is very limited(15).

However, Governments in the developing world and in the socialist countries assume some additional tasks, such as promoting development through state budget. Thus to have

a clear understanding of the subject on government expenditure, the review of literature will assess the place of government expenditure in public finance, the role of government expenditure in economic development, and the determinants of government expenditure.

As far as public finance is concerned, government expenditure remained peripheral to the literature for a long time. The main concerns of the classics regarding the issue of government expenditure in public finance were related to the division between public and private expenditure and how to mobilize revenue.

The tremendous growth in government expenditure in many capitalist countries since the Second World War, and the Great Depression, coupled with the controversy on how to determine the distribution of the tax burden among citizens, attracted the attention of many economists and politicians to the study of government expenditure. The following quotation from Musgrave is a typical example:

> given the principle that the cost of public services should be allocated so as to cause least total sacrifice, it was, but a brief step to the dictum that the distribution of income available for private use should be arranged so as to secure maximum total satisfaction. Provided that the expenditure side of the budget is determined independently of the tax side, there is little logic in limiting the specific doctrine to the fraction of income required to sustain total services(2, p. 16).

The weakness of the principle of distributing the tax burden on equal marginal sacrifice was well recognized. Thus to mitigate this short-coming, it was suggested that, it has to be supplemented by the principle of allocating expenditure on equal marginal benefits. One such example suggested to amend the weakness is that given by Adolf Wagner (17). In the first place, he identified two functions of taxation. First, the purely fiscal function of taxation was expected to supply revenue needed to pay for public services. The other function of taxation was for social welfare. This constituted government expenditure for social welfare. It is this second function which was expected to correct deficiencies on the distribution of the tax burden.

However, the above argument, i.e., how to distribute the burden and benefit among citizens brought some fundamental theoretical and practical problems. Some of the basic ones are, the question of efficiency in the allocation and utilization of government expenditure and its measurement. How are the benefits from public services to be measured? There are various studies in the field of welfare economics, which attempt to explain and deal with this controversy. However, welfare economics failed to come out with specific solutions on how to determine the optimum for the public sector and how to measure and distribute social benefits(17). As a result, Burkhead notes,

"the field of public expenditure is in somewhat unsettled state in both theory and practice and the authors(including himself) find themselves writing into and about a number of areas where neither doctrine nor practice has yet been resolved. "(2).

A distinct but related area of study in government expenditure involves the analysis of fiscal policy. Some of the main fiscal objectives of governments in all countries are, economic growth, full employment, price stabilization, and 'fair' income distribution. The main fiscal instruments at the disposal of governments to achieve the above stated objectives are taxation, government expenditure and borrowing. No detailed analysis will be made here to show which instrument is appropriate for which objective. It is generally agreed in the developing countries that, the overriding fiscal objective of governments,is to initiate development. Thus to bring about development a combination of the fiscal instruments mentioned here have to be applied. This, however, should not be taken to mean that there are no instruments other than fiscal ones. In fact, the instruments have to be syncronized with the monetary, administrative and planning instruments. But as far as the instrument of expenditure is concerned, governments should be able to allocate large amounts for the investment fund.

One way to attain this is recommended by Lewis(7), and this is to curb government consumption expenditure.

This brings us to the issue of the determinants of government expenditure and the literature which deals with it. The growth of government expenditure in absolute terms and in relation to GDP has been tremendous in the rich and poor nations. This fact has led researchers to study the factors behind the tremendous growth in government expenditure.

Despite the tremendous interference of politics and the difficulty in measuring the benefit of government expenditure, practical analysis of this, using positive economics has much light on the understanding of its behavior and in identifying the determinants of government expenditure (13, 9).

Pryor contends that positive theory of public expenditure can be applied to answer the following questions(19):

a) what goods and services are publicly financed?

b) what are the determinants of these expenditures?

c) what are the behavioral properties of these expenditures? and the economic factors underlying such properties?

d) what difference does it make whether a particular good or service is financed by the public or the

private sector?

Questions about what expenditures should be made or whether certain public expenditures are beneficial or not, belong to the sphere of normative economics and were not applied in his study. In the analysis of the determinants of government expenditure, the literature survey will be limited to the essential aspects.

Though not a pioneer, Adolf Wagner. was one of the leading figures who analysed government expenditure(17). According to him, the basic reason why government expenditure grows is, because state activity grows or expands overtime. This assertion has been criticised by many, on the ground that it doesn't help one to make any analytical exercise. It doesn't answer the question of why state activity expands and what the determinants for the expansion of government expenditure are.

Peacock and Wiseman(17), in their study of the growth of public expenditure in the UK, have dealt with the subject thouroughly. One basic point in their study was, their effort to identify the 'permanent' influences, i.e., the determinants for the growth of government expenditure at all times and in all societies. They were not satisfied by what Wagner observed in his time, " as the economy develops, the tasks of the organs and institutions of the government must both change in character and become more

intricate and difficult." It is the belief of Peacock and Wiseman, that, some of the points raised by Wagner are certainly true. But the nature and extent of the growth in government expenditure must depend upon the specific circumstances being considered.

Even though it is acceptable to think of growth in expenditure of the general public as the economy grows, there is no reason to presuppose that the expenditure financed by the government to grow in the same way. Indeed, as the experience of the Western capitalist countries show, as the economy grows the additional expenditure required may be financed by the private sector rather than by the government. Another point to be raised is that there is no reason to expect all items in government expenditure to grow in the same way as the economy grows.

Having examined the various factors that they consider to have influence on the growth of government expenditure, Peacock and Wiseman concluded that, " government expenditure are perhaps more likely than not to increase in absolute real volume as a country develops economically." Further, " changes in the size of government sector and hence of public expenditure are bound to be affected by the political nature of the society concerned and by current views about the role of government."(17).

Another leading writer to discuss the factors responsible for the growth and behavior of government expenditure was Pryor(19). In order to analyse public consumption expenditure, he sets three factors: economic system, level of economic development and other factors. In so far as the economic system is concerned, by examing government expenditure of socialist and capitalist countries, he identified some basic differences between the two. In the first place in the centrally planned economies, due to the existence of comparatively more institutions and organizations, socialist contries face large expenditures. Secondly, the state budget is part of the overall national plan, which is binding for its fulfillment.

On the other hand, however, in a market economy, government interference and controlling mechanism doesn't require huge organization and expenditure, and government expenditure enjoys flexibility.

Turning to the second group of factors, i.e., the level of economic development, reflected in GDP, technological change urbanization, industralization, taste and attitude of the people, price level are some of the main ones that affect the demand for expenditure. Pryor suggested that, in the highly developed and highly underdeveloped countries, non-economic factors play more important role in influencing public consumption expenditure.

In a similar way, S.Lall(33), has also dealt with the subject of government expenditure, specially in identifying the determinants of government expenditure in developing countries His findings showed a respectable statistical support for the following:

a. the share of total government expenditure in the GNP of developing contries increases with per capita GNP;

b. current expenditures as a whole increase their share of the national product with rising incomes;

As has been stated several times, the involvement of government in running the economy of a developing country had earlier been justified on the ground that either the market doesn't exist or due to externalities, it doesn't lead to proper resource allocation. Unlike the earlier discussions, Musgrave points to the failure of the public sector to be the main reason behind the growth of government expenditure. To use his words, "the traditional concern with the market failure came to be replaced by a preoccupation with the public sector failure. Indeed , such failure has come to be viewed as a major, if not the major source of budget growth." (36).

1.3 OBJECTIVES OF THE STUDY

Broadly speaking, some of the major means of promoting development are by adhering to a well prepared development plan, generating and mobilizing resources, proper allocation of expenditure among capital(investment) and recurrent expenditure(consumption), and an efficient utilization of the meagre resources that could be mobilized.

Despite the above stated facts, studies on the role of governments in the generation and allocation of resources, financial resources in particular, have mainly concentrated on the mobilization of revenues, irrespective of where this revenue is going. Nevertheless, today, government expenditure can not be seen as a side issue. The aim of this study is to analyse the pattern and behavior of government expenditure. To be more specific the study has the following objectives:

1. to review and analyse the structure of the budget. The components of revenue and expenditure, the structure of capital and recurrent, and the allocation of expenditure at service and sector level are discussed. This lays the ground to analyse the determinants of government expenditure which is the main objective of the study. This is supported by a review of the institutions and the

procedure that is involved in the allocation of expenditure;

2. by analysing Government expenditure,
   a) to identify the determinants for the growth of total government expenditure;
   b) to identify the determinants for the growth of recurrent and capital expenditures separately;
   c) to identify the determinants for the growth of recurrent expenditures for administration and defence, social services and economic services. The second objective explores the factors responsible for the growth in Government expenditure during the period under study.

The two objectives together will help us to see whether the Government's allocation of resources was consistent to its stated objective of promoting development. In addition to this, we will compare the results of the study with the case of developing countries mentioned in the literature. In general, government recurrent expenditure is financed through domestic tax, while capital expenditure depends more on foreign borrowing. To study and analyse the determinants of government recurrent expenditure is to attempt to understand how well the government is managing

that area of expenditure which is within its greater control. As noted before, a proper management of recurrent expenditure can be a vital force in the development process of the country. Therefore much emphasis is made on the study of recurrent expenditure. Based on the above analysis the study gives some recommendation.

1.4 METHOD OF STUDY

As has been indicated in the previous sections there are two approachs to the study of government expenditure. The first one is the normative analysis, while the other one is the positive analysis. The distinction between the two approachs is well known to economists, but all too often not well communicated. To illustrate the distinction between the two:

> positive statements concern what is, was or will be and normative statements concern what ought to be. Positive statements, assertions or theories may be simple or complex, but they are basically about what is the case. Thus disagreement over positive statements are appropriately settled by an appeal to the facts. Normative statements concern what ought to be. They are thus inextricably bound up with our whole philosophical, cultural and religious position; they depend upon our judgements about what is good and what is bad. We say that normative statements depend upon our value judgement (13, p.4).

Thus, the present study is based on positive analysis. To meet the first objective, statistical methods, ratios, growth rates are used. This is supplemented by a review

of the procedure in the allocation of government expenditure and the institutions involved. The use of some statistical methods like ratios and percentages without qualification, have some shortcomings. Some studies try (43) to compare countries by the percentage of expenditures allocated to certain activities out of the total expenditure, or in proportion to GNP. However, this method has a major weakness. In the developed western countries, we may find large percentage of expenditure going into defence, health,&education. This is so, because, the governments in these countries may leave other areas of activities to the private sector. Even in countries which are on similar levels of development, because of difference in policy, they may have different ratios. For instance government expenditure for health in a given country may take small proportion while the overall expenditure on health may be greater than in other countries. Therefore, great care should be made when one tries to make international comparison using simple ratios and percentages.

The second objective of the study was indicated to be the identification of the determinants behind the growth and allocation of government expenditure. To meet this objective several studies have applied the Least Square Regression (LSR). To mention some, Peacock and Wiseman for the UK; Pryor for a group of capitalist and communist countries;

S. Lall for a group of developing countries; and J.B.Longe for Nigeria (17, 19, 33, 32, 13).

The model will be:

$$Y_i = b_o + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6$$

where Y_i is the ratio of the expenditure under examination to GNP

X_1 = per capita GNP

X_2 = domestic revenue/GNP

X_3 = export + import/ GNP

X_4 = ratio of recurrent government expenditure on education to total government expenditure

X_5 = ratio of external loan and domestic borrowing to total revenue

X_6 = dummy variable for the change of government

and b_1, b_2, b_3, b_4, b_5, b_6 express the relationship between the respective independent variables and the dependent variable.

In the model to be applied, total government expenditure or/and its disaggregated components for the 20 years will be taken as dependent variables. The hypothesis we pursue is that government expenditure and its components increase with per capita GNP, the availability of domestic revenue, the volume of foreign trade, the literacy rate(X_4). However, with regard to X_5 and X_6, different expenditure components will behave differently.

Based on the results of the regredsion equations, we will see the magnitude, direction and significance of the determinants of government expenditure in Ethiopia. To explain the determinants of defence and war expenditures, non-economic variables have greater significance. However, a country's capability to defend itself and conduct war partly depends on its economy and at the same time, its expenditure on defence and war has strong bearings on its economy. The extent to which we can explain the political factors behind defence expenditure being low and not the direct objective of the study, the paper will assess only the economic behavior of defence expenditure. What is meant by this is , to look at defence expenditure if it has any 'displacement effect' (17) on development expenditure.

1.5 DATA BASE , SCOPE AND SIGNIFICANCE

Data on Government expenditure is available on the annual Negarit Gazzeta proclaimed by the Government. Budgetary changes in the middle of the fiscal year are incorporated and finally the Ministry of Finance prepares annual budget report. This report consists of 4 columns: the first column shows the annual original planned budget; the second one shows the revised one, the third shows the actualexpenditure and the final one shows saving or excess; i.e., the difference between revised and actual.

For different purposes comparing the planned and the actual is essential. If we look at table 1, ratio of actual to planned indicates a wide gap, specially for capital expenditure and domestic borrowing. Due to the wide variance between the planned and actual, the present study is based on the actual data. When the present study was started actual report was available only upto 1977, and because of this the regression analysis uses data only for the years from 1958-1977. The Ethiopian calender(EC) is used in this study, because, it is closer to the Ethiopian fiscal year, which runs from Hamle(July) to Sene(June).

It is necessary to give the reader some explanation regarding the type and quality of data. In the first place the budget consists of two categories; revenue and expenditure. Government expenditure is composed of recurrent (consumption), and capital (investment) expenditures. Under the recurrent expenditure, we find four groups: Administration and general Services(state organs, defence, foreign affairs and information etc.,), Social Services (education, health etc.,), Economic Services(agriculture, industry, transport etc.,) and Transfer Payments like debt payment and pension payment. Equally under the capital expenditure, we find economic services and social services.

Another approach to the data could be on sectoral basis, i.e., by adding up recurrent and capital expenditures for a given sector. For instance, we can amalgamate the capital and recurrent expenditures for agricultural sector. However, since allocation between recurrent and capital expenditure and not between industry and agriculture lies at the center of the objective of the study, we will follow the former approach.

Since the arrangement of the data requires consistency, reclassification was made based on the present arrangement. In the course of time, some ministries expand and others disappear. But the annual expenditure data report doesn't go back and make rearrangement. For instance expenditure for relief programs is currently put under Social Services, while some years back, it is put under Administrative Services. Another important example to be mentioned here is, expenditure for Malaria eradication is currently considered capital, while in earlier years, it is put under recurrent. Thus, to have confidence in the data, it was collected on subhead level from the disaggregated annual budget report from the Ministry of Finance. It is important to mention here that, it is not reasonable to use data aggregated on services level from the annual budget report.

Data related to GNP was obtained from the Office for the National Committee for Central Planning (ONCCP). As far as the quality of data regarding national accounts is conerned, it is not different from the problem faced by many researchers. For instance population figure has been revised based on the 1984(GC) census(27), and this has direct effect on the per capita GNP.

A definition of public sector may be helpful to specify the scope of the study. The public sector in Ethiopia has been defined in the Third-Five-Year-Plan as follows:

> all the ministries, agencies and other organizations whose accounts are included in the Central Government Budget, the chartered municipalities, and those corporate enterprises in which not less than 56% of the shares are held by the Government or its financial intermediaries. Although, these enterprises enjoy autonomy, the Government, as the principal share holder, bears final responsibility for their operations and sets their broad policies and rules of operations(39).

After the nationalization of major enterprises, the size of the public sector has increased. However, it should be clear that the present study is concerned with the Central Government expenditure and not with the public sector as a whole.

The present study will have at least two significance. By reviewing some government policies, the procedure in the allocation of expenditure, and institutional factors, the

study will be helpful in understanding and improving some deficiencies. It will be essentioal in determining future expenditures and in formulating fiscal policy. Another importance of the study will be to fill the research gap in resource mobilization.

CHAPTER TWO

II. GOVERNMENT BUDGET AND ITS ROLE

In this chapter, we will discuss, a) the role of government budget in different socio-economic systems, and levels of development; b) different types of budgeting.

To give clarity to the discussion, it is essential to begin it by including the meaning, essence and purpose of budget. The word budget is derived from the French word 'bougette', meaning a small bag or pouch (8). The Oxford dictionary defines a budget as " a statement of the probable revenue and expenditure for the ensuing year with financial proposals founded there-on." Alternatively, it is also defined as " a financial and/or quantitative statement prepared prior to a definite period of time of the policy to be pursued during that time for the purpose of attaining a given objective. "(8). The meaning of budget becomes clear when one discusses the role of budget and the types of budgeting.

2.1 THE ROLE OF GOVERNMENT BUDGET

Historically, the practice of budgeting as it is now understood, originated in the Central Government of Great Britain around the year 1217 (8). However, an entirely new

approach to government budgeting was initiated during the 1930's economic depression in the advanced capitalist countries. During that period, new possibilities of using fiscal measures to regulate the level of employment and economic activity were recognized (8).

While reviewing the literature on the subject, we have seen the role of government expenditure in economic development and the place of government expenditure in public finance. Some of the main roles a budgetcan play include: a) it can serve as a good instrument in the implementation of plans; b) it can be used to authorize the collection or the use of fund for certain activities or programs by certain units of the government; c) it can be useful to forcast future expected results; d) it can also be used to measure activities within the public sector (8, 12, 22, 9).

The role of government budget becomes more clear when we analyse what the goals of a budget are, and the instruments (within budget) to attain the goals. The main goals include: a) economic growth, b) stabilization of price, c) full employment of resources and manpower, d) 'fair' income distribution (12, 22, 15, 2). And the instruments are: a) revenue (taxation), b) expenditure, c) debt management. As we can see from the goals, they reflect economic aspects of a

country. The importance of the instruments should be seen in relation to others, like monetary, administrative and planning instruments. In fact, at times and in certain countries, non-budgetary instruments may have greater importance in attaining the given objectives.

Due to differences in economic system (i.e., capitalist and socialist) and level of development (developed and developing countries), there exists difference in the importance of the goals and in the use of the methods to attain them. This is so, not only among countries, but also within a given country. The role budget can play may change, depending on the specific issues of the day.

In the developing countries, the most important issue is economic growth. The unique nature of the problem in this countries is that, development has to be initiated by the government. Despite the general agreement on the main issue of development, there can be a lot of controversy on the means. Is it fiscal (like taxation, expenditure and debt management) or monetary (expanding bank credit facilities, manipulation of interest rate) or administrative measures or planning that best suit these countries? There can not be general agreement by all for all nations. But one thing is agreeable, the absence of market forces makes monetary instruments inactive. As a

result, we see heavy reliance on budgetary means to bring about development. Similarly, but for a differnet reascn the main objective in socialist countries is economic growth. We may equally stress income distribution to be an important goal desired by these countries. This is not to say that,goals like price stabilization and full employment have no importance. The difference lies not in the goals, but in the means. In the socialist countries the state budget is an instrument of the overall national plan (19, 4). Thus, the state budget has to ensure the allocation of fund among alternative programs and the means of financing it. It is here where allocation of resources between levels of consumption and investment has to be decided, and the budget is a reflection of it.

One starts to have an appreciation of the role of budget as the goals and means mentioned earlier are applied to the economy of the advanced capitalist countries. This is so simply because they are developed as a result of the need in these economies (2, 22, 12, 15). In simple form:

Goals	Instruments
1. economic growth	1. taxation
2. price stabilization	2. government expenditure
3. full employment	3. debt management
4. income distribution	

The goals and instuments are interrelated to each other. Except for theoretical interest, we can not separate the impact of each, for instance the effect of taxation on economic growth and income distribution. Similarly, economic growth may be promoted using a combination of the instruments. However, it will be lengthy to include how each goal is related to any other goal and equally to the means. Therefore, we will give only some brief aspects of the goals and means.

In the realm of economic growth, governments, as mentioned earlier either directly or through the market, have the responsibility to bring about economic growth. In countries where the economy has reached high level, the issue becomes one of maintaining the attained level. If no effort is made to maintain it, the consequences that may arise have been pointed out by one author as follows:

> If the portion of national income used to purchase consumption goods is too great, the quantity of saving and new investment will be insufficient to make use of the new technical developments and also replace wornout capital goods. If the portion of national income intended for consumption is too little, intended saving becomes greater than intended investment and as a result national income falls, bringing about a decrease of employment and inefficient utilization of resources (12, p.56).

The second goal of fiscal policy, i.e, price stabilization, is mainly the concern of the developed capitalist countries. In this countries the economy suffers from inflation and deflation. In general, the most common test of the degree of economic stability is the level of prices and their movements. It is to be understood however that, stable prices are, the result of stable relationships and not the cause. Thus, budgetary instruments, to the extent that they maintain desirable economic conditions, can be considered to have contributed to price stability. What should be added to this is that governments can not remain silent in the event of ups and downs in prices, for the effect of it on the economy and the nation at large could be fatal.

As mentioned earlier, the priority of each goal depends on the severness of the problem, the country is facing. Thus, in countries where there is acute unemployment problem, resources can be diverted towards solving it. When we say full employment, it refers to human as well as material resources. We should remember the fact that the level of employment will have repercursion on the price levels and finally on economic growth.

Coming to the issue of income distribution, it is surrounded by a lot of controversy. The controversy ranges from whether an equal or unequal distribution is desired, and moreover, how to bring about 'fair' distribution, if that is the

The second goal of fiscal policy, i.e, price stabilization, is mainly the concern of the developed capitalist countries. In this countries the economy suffers from inflation and deflation. In general, the most common test of the degree of economic stability is the level of prices and their movements. It is to be understood however that, stable prices are, the result of stable relationships and not the cause. Thus, budgetary instruments, to the extent that they maintain desirable economic conditions, can be considered to have contributed to price stability. What should be added to this is that governments can not remain silent in the event of ups and downs in prices, for the effect of it on the economy and the nation at large could be fatal.

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desired goal. The fact that the level of income distribution affects levels of consumption, saving, investment and directly or indirectly economic growth, makes one pause whether governments should give it less attention. If required, there are budgetary instruments like taxation, and expenditure inorder to solve the problem.

The main objective of the study being government expenditure, it is important to add some more statements regarding this instrument. How can economic growth be promoted? How can it be used to stabilize prices and promote emplo-ment? Is it possible to use it for purposes of income distribution? or, are there other instruments better than it to obtain the above objectives? No claim is made here to give fair answer to all questions. Some of the points that have to be clear as far as this case is concerned are, unless there is clear government fiscal policy, it may be difficult to indicate the purpose of any expenditure. Expenditures for running state affairs are outside fiscal objectives. But it should be clear that, financing it through taxation will have an impact on economic growth and other factors. H owever, government expenditure can directly affect economic growth on the bases of fund allocated to development purposes.

We have already seen in the survey of literature that, income distribution is related to taxation and expenditure. Governments can influence the level of income distribution through the allocation of fund for services run by it. Increasing or decreasing levels of expenditure can determine the level of unemployment in a country. Compared to other purposes of government expenditure, its contribution to control or stabilize prices is less. But when there is inflation caused by deficit in the budget, cutting expenditure can be helpful to solve the problem.

Primarly, the mechanism of financing expenditure has a direct effect on the price level. Expenditure financed by a deficit increases the existing price level. If on the other hand , expenditure is financed by tax collection the effect is very little. Whatever form of financing being used, the additional expenditure increases the income of individuals. Its effect on price is very significant. In general terms, government expenditure which goes to consumption has the tendency to cause inflation.

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increases, it depresses price. During the 1930's depression government expenditure played great role to manipulate prices. On the one hand, public expenditure helped to promote consumption so that prices of certain commodities can increase. Consequently, investment for such commodities increased. On the other hand, the high prices for certain commodities were made to decline by reducing investment on them. To summarize the relationship between government expenditure and prices, government expenditure should be increased during depression and reduced during prosperity(12).

Here now, we turn to the relationship betwee government expenditure and economic growth. We can broadly split expenditure into investment and consumption. The first type is expenditure for investment which is related to the use of government funds to finance socio-economic projects. This type of expenditure may either stimulate and promote further investment by other groups or sectors through its multiplier effect or may end up in consumption. The second type is government expenditure for consumption. This includes expenditure for the provision of education, health social activities and running state machinary. The problem faced by many governments lies not in choosing one by ignoring the other, but in determing the level of each.

If for instance there is a tendency to favour "equal" distribution, this will lead to increase consumption and depress investment. However, if current consumption is not curbed to a certain level, ivestment is unthinkable unless foreign sources of investment are obtained. But replacing domestic effort by foreign sources could be difficult in the first place, and even if possible may not be desired on many grounds.

The desire to bring about economic growth in the developing countries is strong. The reality in these countries reflect charaterstics like low per capita incomes, heavy reliance on subsistant agriculture; heavy reliance on one export commodity; disappointing levels of soci'l indicators like literacy rate,,mortality rate, life-expectancy etc., and slow rate of growth of the economy for a long period (35).

Thus, to bring about a change in the appoling situation of these countries, governments should through budgetary expenditure among other things, encourage and increase capital formation. It is not easy to give specific recommendation on what areas the government should invest. But, we can , in general terms say that, government investment should focus on improving educational and

health conditions, construction of infrastructure like roads, houses, bridges, dams; changing the subsistance way of life in agriculture and improve the industrial base of a country.

Another area where government expenditure can play great role is in solving problems related to employment. Full employment is understood to mean the full utilization of human and material resources. There are wide ranging arguments on how to bring about full employment. The two basic ones are the balanced budget approach and the unbalanced one. What is meant by the balanced budget is the annual expenditure of the government should not exceed the tax collected. In other words, it should not resort to debt situation or deficit financing. The unbalanced budget approach favours to increase spending by borrowing. The underling assumption is that if current taxes are increased to finance expenditure, it may be counter productive to private investers and also financing expenditure by borrowing will immediately improve the unemployment problem. The fact is that if deficit financing goes to finance productive areas of investment, the problem of inflation can be less. Government expenditure influences employment by providing or not by providing an effective demand for goods and services. The increase in government expenditure

brings about an expansion in the effective demand for goods and services. This expansion results in providing better employment opportunities.

Now let us look at the mechanism of how government expenditure can influence income distribution . If there exists unequal distribution of income among income groups or regions, the government can influence it by resorting to progressive taxation. But here, we are interested in how to use expenditure to serve such purpose. The government can consider such matters in its decision on allocating fund.

It should be emphasised that, the achievement of the objectives depends on the strengh of a government ruling in a country. This is so because administration of budget requires strong government departments and discipline in its implementation.

It has already been mentioned that , governments can influence their own activities and also that of the private sector through fiscal policy, monetary policy and other administrative measures, like direct control and quotas. At this point it is essentioal to include a brief assessment of the relationship between monetary and fiscal instruments.

Monetary measures are those activities conducted by the banking system, and this include the determination of interest rate and the availability of bank credit. The rate of interest affects investment and eventually the rate of growth of the economy. At the same time, the bank's lending policy affects the money supply and this is reflected in the economy (5).

The argument of either or i.e, monetary or fiscal is dead. This has been proved by experience of the last four to five decades. Before the experience of the 1930's economic depression, there was a belief that monetary policy could be successful to stabilize the economy. This was based on the belief that governments should leave the affairs of the economy to the market. But the 1930's depression proved the inadequacy of the market to stabilize the economy, and governments through their fiscal measures, interfered to salvage the economy that had practically collapsed. Consequentely, the successful application of fiscal policy during that period led to a tendency to neglect the importance of monetary policy. However, again , the experience of many countries proved that fiscal measures alone were not enough and a combination of the two was necessary. Some favour monetary policies to fiscal, on the ground that they are more flexible and politically more acceptable.

But the application of monetary policy requires a monetized economy. Money markets should be strong and the manipulation of interest rate and changing credit facilities should have an immediate effect if monetary policy is to operate. Banking activities should play an active role in speeding up investment. In the developing countries monetary instruments play very little role, because, the economy is based on subsistance traditional agriculture, banking activities are limited to commercial purposes. But these countries should give strong attention to improve such defeciencies, inorder to take advantage of the good merits of monetary policies and to reduce heavy reliance on administrative and fiscal measures.

2.2 TYPES OF BUDGETING

Budgeting as a process and system has different features and application. Even though many of them have common features, they also manifest significant differences. These differences can assume decisive nature, reflecting differences in substance. The objective of this section is to present some of the main types of budgeting. The immediate benefit is to make later readings on the subject clear, and subsequently will be helpful to analyse the Ethiopian case.

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Some of the main types of budgeting to be reviewed here include, line-item budgeting, piece-meal budgeting, performance budgeting, Planning-Programing-Budgeting(PPB), and Zero-Base-Budgeting(8, 14, 9, 20). Budgeting has always been concieved as a process for systematically relating expenditures of fund to accomplishment of certain objectives. Every budget system, even rudimentary ones, comprises planning, management and control.

Line-item budgeting is a way of allocating fund in a very detailed way. It concentrates on the goods and services to be supplied by the government. This system has the merit of becoming good for accountability. However, its demerit lies on the fact that it fails to make any relationship between the goods and services provided and the overall program.

Another type of budgeting, with no much difference,is the piece-meal budgeting. Fund is allocated for certain type of activity and results are evaluated on a piece-meal basis. There is no much to be said about the above two types of budgeting, because, they are traditional ways and loosing ground, unable to cope-up with modern activity.

Performance budgeting is management oriented type of budgeting. Its main principal aim is to help administrators

to assess the work-efficiency of operating units. Generally, its method is particularly interested in reducing work-cost. The demerits of performance budgeting become clear when we consider PPB and ZBB.

Planning, Programming and Budgeting(PPB), is a recent innovation in the process of budgeting. It started in the USA, and during its two decade of existence, a lot of progress has been made. Some of the factors that led to use PPB are(14):

1. economic analysis, macro and micro has had an increasing part in the shaping of fiscal and budgetary policy;
2. the development of new informational and decision technologies has enlarged the applicability of objective analysis to policy making;
3. the gradual convergence of planning and budgeting process.

PPB involves the determination of objectives, the evaluation of alternative courses of action and the authorization of selected programs. It is planning oriented, its main goal is to rationalize policy-making by providing costs and benefits of alternative ways of attaining proposed public objectives and also the overall impact of the process.

Planning is linked closely to budget preparation. But it would be a mistake to disregard the management and control aspects in budget preparation. As far as management is concerned, it involves the programming of approved goals into specific projects and activities, the design of organizational units to carry out approved programs, and the staffing of these units and the way to obtain necessary resources. Budgetary control involves the process of binding operating officials to the policies and plans set by the policy makers.

Unlike the other types of budgeting, PPB, focuses on expenditure aggregates. Details are also analysed, but only to contribute to an analysis of the total or of marginal tradeoffs among competing proposals. However, the PPB approach, is not without criticism. Three basic problems associated to the above method are(13, 9, 20):

1. The first problem emanates from the enormous technicalities involved in PPB. According to its critics, PPB gives more weight to technical analysis at the expence of political analysis in reaching decision. In line with this, the information requirement of this method surpasses the capability of many public organizations. It presupposes the existence of sufficient recording of information by all public authorities. Moreover,

the skill and staff requirement for the application of PPB is enormous.

2. The second problem is related to application of the method. Any organization or country applying other methods may find it troublesome to abandon the others altogether and adhere to PPB. The best way may be to mix the best of all as one authority on the field has suggested:

> while a PPB maybe the best format for making decisions about effectiveness, the performance budget may be far superior in dealing with questions concerning the efficient use of resources and the line-item budget may yield the most appropriate information for decions concerning accountability(14).

3. The third type of problem is related to the analytical methods to be used in selecting projects. This is concerned with whether to apply economic criteria or others.

The most recent type of budgeting in application is Zero-Base-Budgeting(ZBB). This type of budgeting is similar to PPB. The most basic concept behind ZBB is that all programs and expenditures are re-evalueated every year. Another feature of ZBB is that the responsibility to present and defend programs falls into the hands of managers of respective institutions. Moreover, according to the method of ZBB, "decision packages" have to be developed. The key to ZBB lies in the identification and evaluation of alternatives. This is followed by ranking of the "decision packages", the most crucial stage in the application of this method.

Despite the obvious advantages of ZBB, there are some problems associated to the practical application of it. Given enough time and manpower, there would not be any controversy on the application of ZBB. However, if such problems exist, reviewing all programs every year would be cumbersome and some times impossible. In fact, another more serious problem is, the ranking of programs. Initially, the concept of ranking helps to give priority to programs that have greater importance in relation to the means. This method is well justified on the scarcity of fund. However, the ranking process, apart from its time consuming and tough exercise, may suffer a serious setback for lack of objective ranking criterion.

The present exercise is not an effort to recommend any best way of budgeting. The whole effort is to familiarize the reader with the methods. Application of any one of them depends on the historical, economic and technical factors at any given period of time in a country or organization.

CHAPTER THREE

III. GOVERNMENT BUDGET IN ETHIOPIA

This section gives general frame-work of the economy in relation to government budget. Often, the underdeveloped nature of the economy exerts strong influence on the budget. Next to this a review of revenue, expenditure and deficit financing is presented. This is followed by similar review of the procedure and institutions involved in the allocation of Government expenditure. Finally, detailed presentation of the structure, composition of government expenditure is given. It is believed that all these reviews will enable us to analyse the determinants of government expenditure, which is the subject of the next chapter.

3.1 General Background of the Ethiopian Economy

Ethiopia , on the basis of various socio-economic parameters, manifests basic features of underdeveloped economy. It is an economy dominated by agriculture. The role of agriculture in the economy can be shown by its contribution to the livelihood of the majority of the people, its contribution to export earning, raw material supplier to many of the processing plants. It should be mentioned here that the monoculture in the export of coffee, the declining

fertility of the land in many parts of the country, compounded with fast growing population, the contribution of agriculture to the overall economy was very low. The availability of minerals and oil has not been promising and even if available, prospecting will not be an issue of the near future. Thus, dependence on agriculture will be there for a considerable time in the future (7, 43).

The situation with the other economic parameters like per capita GDP, is also dim. It is one of the lowest in the world. World Bank report indicates that, GDP annual average growth rate for the last decade was 2.5% , while population growth rate for the same period was about 2.8% per annum. Life expectancey , infant mortality are the worst even by African standards. However, we should not forget the progress made in the elimination of iliteracy, increasing school enrollement rates fof the young, despite the recurfence of draught, famine and war, during the last decade.

The extent to which the overall economy is in bad shape can be seen in the deficit in the balance of payment and Government budget. The foreign exchange earning of Ethiopia comes mainly from the export of coffee, hides and skin and oil seed. As far as the foreign trade sector is

concerned, the last decade has witnessed the continuous decline in the price of exports and at the same time an upward trend in the price of exports. A remarkable episode during that period was the galloping in the price of oil. This, apart from its indirect effect on causing recession in the world economy, was responsible for a number of economic problems in the country. While the country still depends on imported oil, the fact that its price has fallen down to relatively reasonable level, can benefit Ethiopia.

Deficit in the government budget is the result of the gap between domestic revenue and expenditure. This gap is financed by loan, assistance and domestic bank borrowing.

The present study believes that the mentioned current macro-economic problems are the result of many years. Thus, we should assess the past in light of what has been discussed above.

Unlike almost all African countries, Ethiopia has had no significant experience of colonialism. At the end of the Second World War, i.e, after the brief Italian occupation, the country was without any kind of modern economy. Some of the initial actions taken by the Government were, the centralization of government administration, drafting of

the constitution, and in the socio-economic field preparation of a general plan. As far as the plans are concerned they conatinned general indicators of objectives and also the means to attain them. Even though there is no much to say about the First-Five-Year-Plan, it laid the ground for the Second-Five-Year-Plan. The Second-Five-Y ear-Plan was set to address the following objectives(39):

1. to achieve great economic results through the rational utilization of available capital and labor;
2. to make use of different means of develpment in order to narrow down the economic divergence between Ethiopia and the economically advanced countries;
3. to economize money as much as possible and invest it on some useful project in order to bring about an independent growth of the Ethiopian economy;
4. to obtain balanced and uninterupted economic growth in order to raise the standard of living of the people;
5. to improve and expand education, public health, fine-arts and industrial projects more intensively.

The Third-Five-Year-Plan, which covered the years upto the end of the earlier regime, was not different from its predecessor in many respects. Some simle difference one can observe was in their priority setting. In the Second-

Five-Year-Plan, agriculture and industry got priority, while in the Third-Five-Year-Plan, infrastructural development such as roads, schools, health services were the ones which got priority. In Ethiopia, as in other developing countries, plans give high priority to economic growth. However, looking at the low-level of economic growth, mass powerty, low coverage of health services and high illiteracy rate at the end of three five year plans, one would really wonder what the situation would have looked like had there been no plans.

After the Military Government took over power, it started to change and improve the situation with a new spirit. Socio-economic andpolitical thinking were reoriented on non-capitalist line. Major industrial and financial activities came under state control. Reforms were enacted in the field of agriculture to solve the land tenure system. Yet, high segment of agriculture remain under private peasant ownership. Moreover, state farms and subsequently cooperatives were formed. This increased the direct intervention by the Government in all major socio-economic activities.

On the other hand, public enterprises were organized under respective ministires. These consisted in some long standing publicly owned entities, enterprises nationalized

since 1967, and some new enterprises(35). They provide about 95 percent of the output in large scale manufacturing and account for more than 60 percent of the total manufacturing cutput. They are also important in the marketing of agricultural products like coffee, they provide a variety of services including transportation, communication, power and construction.

As a result of the non-capitalist re-orientation of the economy, the public sector started to grow. This is reflected in the finance of the Government. On the bas of proclamation No. 163 of 1971 (37), among the main objectives for establishing public enterprises, as far as finance is concerned were:

1. the establishment of an effective system of financial control is an expenditous way of ensuring the formulation of coordinated operational programs by various Government bodies and proper mobilization of resources for investment activities with a view to achieving overall social and economic development of the country.
2. to achieve this, it is necessary to regulate and coordinate the planning and financial operations of public agencies, enterprises and financial agencies. According to the same proclamation, it was stipulated that;
   a) the Government shall have state capital in every public enterprise, with the Ministry of Finance and supervising Ministry deciding the amount;

b) each enterprise shall establish a general reserve upto an amount of 30%(60% for financial agencies) of capital from annual contribution equivalent to 10% (30% for financial agencies) of its surplus.

c) the Council of Ministers(COM) decides on disolving anenterprise due to financial loses.

Currently, enterprises are required to fulfil the following financial obligations:

1. they pay 5% of the State Capital as capital charge;
2. they pay 50% of their gross profit as business tax;
3. after keeping 10% of their profit as a reserve, the remaining part is submitted to the MOF as residual surplus.

As a result of the existing financial policy, enterprises suffer enormous financial burden and limited autonomy. In addition to this, we explicitly see the concentration of resources, i.e, the pulling of resources to one pool. the Central Government. After submitting almost all financial resources, public enterprises should get the permission and resources for expanding an existing one or to establish a new one. The process to get the permission

goes in the following way; enterprises and corporations prepare capital expenditure budget, covering expenditures on on-going project and new investment projects. Project proposals are then examined at their respective ministries. When it is finally submitted to the planning body , it shmehow, is weighted against other programs within the sector or service. The competition for resources dose not stop there, but it is further complicated by the competition for resources between recurrent and capital expenditures. Decisions made outside an enterprise are based not only on economic criteria, but, a number of variables come to play. Thus, it should be emphasised that the progress of the economy and industralization in particular, mainly depends on the success or failure of the public sector.

3.2 Review of Revenue, Expenditure and Deficit-Financing

Revenue can come from external and domestic sources. The sources of domestic revenue are tax and non-tax. The non-tax revenues include profits from Governmental activities fees and charges.

The inadequacy of domestic revenue to finance Government expenditure in size and type, forces the Government to use domestic borrowing/ and external loan and assistance. The share of domestic revenue, external loan and domestic

borrowing in the total government expenditure is shown in table 6. The share of tax from domestic revenue was more than 80 percent upto 1972. This share declined for the last few years of the study period. Similarly, the share of domestic revenue in the total financing has declined. As table 6 indicates, loan and borrowing accounted for 32% in 1967, 35%in 1968, 40% in 1977, and 42% in 1975 out of the total financing of government expenditure. These two forms of financing are unstable, showing drastic change from year to year.

Within the structure of tax revenuem there are two types of tax; direct and indirect tax. As the study by Teame (21,p.56) indicates the share of direct tax from the total has grown from 24% in 1959/60 upto 37% in 1974/75. The two basic components of the indirect tax are, taxes on domestic goods and taxes on foreign trade. Some of the main features of the revenue side can be mentioned to be:

a) the declining share of domestic revenue in total financing
b) the high share (more than 70%) of indirect tax from the tax revenue, which is typical in many developing countries
c) heavy dependence on import duties as source of revenue.

We have already seen the role of revenue in general terms. Initially, it is important to finance state activities. Moreover, revenue has also a role to play in promoting economic growth, controlling inflation, reducing unemployment and redistribution of income. How has taxation been helpful in attaining the above objectives in Ethiopia? If one tries to look at the reason why each type of tax has been introduced, it becomes vivid that almost all were introduced to mobilize revenue at a time when the program of the Government and the existing structure of taxation show big gap. Thus, the basis for the existing tax structure was primarily revenue motive. But the motive behind taxation is not revenue alone. However, since there is , so far no comprehensive fiscal policy in Ethiopia (28), we can not develope any kind of stated relationship between the existing taxation and fiscal objectives like stablizing price, solving unemployment problems and income distribution.

However, this should not be interpreted to mean there is no connection at all between the present tax system and fiscal objectives. For instance the current income tax is said to be one of the most progressive taxes in the world (21). It is possible to attach two reasons for this. In the first place, the fact that it is highly progressive, enables the government to tap taxes from the

Table 1. Ratio of Actual Budget / Planned Budget in %

	Recurrent Expenditure	Capital Expenditure	Total Expenditure	Domestic Revenue	Borrowing
1958	101	80.4	96.9	101.0	16.4
1959	98.4	65.1	91.1	92.0	39.0
1960	91.5	63.4	85.6	86.6	69.8
1961	90.1	49.0	81.1	84.0	38.3
1962	95.7	81.0	92.7	93.9	67.3
1963	97.5	89.6	95.9	100.0	24.2
1964	97.6	74.4	91.1	90.3	20,2
1965	93.5	86.9	94.5	96.3	39.8
1966	93.5	72.3	87.6	93.6	3.5
1967	92.0	81.9	89.5	93.0	70.3
1968	91.5	65.1	83.5	83.4	84.0
1969	90.6	74.1	86.0	93.0	53.1
1970	94.4	81.0	91.4	96.4	76.5
1971	97.7	60.6	87.1	99.9	22.2
1972	101.9	63.0	90.4	96.7	58.5
1973	101.4	55.3	97.1	95.8	41.2
1974	103.8	69.7	91.7	109.4	3.4
1975	103.4	75.9	92.5	96.5	81.9
1976	97.7	70.8	88.0	93.0	64.5
1977	113.6	63.5	91.8	95.4	75.5
over-all over-age	97.3	71.2	90.3	94.5	52.5

Table 2. Actual Government Expenditure in million Birr

	R E C U R R E N T					C A P I T A L				
Year	Administration	Social	Economy	Others	Total	Economy	Social	Others	Total	Grand Total
1958	180.8	64.9	28.6	115.7	390.0	68.4	4.0	7.9	80.3	470.3
1959	188.8	78.8	35.7	112.6	415.9	56.9	7.3	13.1	77.3	493.2
1960	206.6	77.0	39.0	119.3	441.9	62.4	11.6	7.0	81.0	522.9
1961	211.2	80.1	36.0	127.2	454.5	42.7	27.1	6.1	75.9	530.4
1962	213.0	96.5	42.5	126.9	478.9	64.7	30.1	11.3	106.1	585.0
1963	216.7	107.9	45.4	137.1	507.1	90.5	19.0	14.8	124.3	631.4
1964	229.4	118.7	45.9	127.4	521.5	108.7	27.2	15.1	151.0	672.5
1965	240.5	138.2	52.0	132.5	563.2	103.1	34.8	15.2	153.1	716.3
1966	262.5	149.9	58.7	128.1	599.2	124.1	41.3	13.1	178.5	777.7
1967	353.4	208.5	67.6	181.8	811.3	172.1	43.3	22.2	237.6	1,048.9
1968	495.1	199.7	80.9	141.9	917.6	229.3	51.1	2.4	282.8	1,200.4
1969	588.4	208.7	87.1	135.6	1,019.8	272.7	44.8	7.2	324.7	1,344.5
1970	925.0	223.5	95.5	133.3	1,367.3	294.1	32.6	10.7	337.4	1,704.7
1971	838.7	252.6	91.4	294.6	1,477.3	318.8	45.7	4.3	368.8	1,846.1
1972	917.4	279.7	106.3	391.3	1,694.7	381.9	56.0	5.4	443.3	2,138.0
1973	950.7	325.7	111.7	403.3	1,791.4	431.6	68.5	5.0	505.1	2,296.5
1974	1,097.4	362.9	124.2	350.1	1,934.6	607.1	105.0	2.9	715.0	2,649.6
1975	1,335.6	426.4	150.0	650.5	2,562.5	1,142.8	88.9	13.6	1,245.3	3,807.8
1976	1,249.1	455.0	134.6	426.4	2,265.1	796.4	109.6	27.0	933.0	3,198.1
1977	1,231.9	546.6	138.8	820.3	2,737.6	1.077.6	87.8	21.6	1,187.0	3,924.6

Source: Annual Actual Budget report by the MOF

Table 3 Annual Growth rates %

7/8

Year	1	2	3	4	5	6	7	8	9	10	11
1958											
1959	4.42	21.41	24.83	-2.68	6.64	-16.81	82.5	65.82	- 3.76	4.87	6.03
1960	9.43	- 2.28	9.24	5.95	6.25	9.66	58.9	-46.56	4.79	6.02	6.58
1961	2.22	4.02	-7.69	6.62	2.85	-31.57	33.62	-12.86	-6.29	1.43	6.06
1962	6.85	20.47	18.06	-0.24	5.37	51.52	11.07	85.24	39.79	10.29	9.21
1963	1.74	11.81	6.82	8.04	5.88	39.87	-36.87	30.97	17.15	7.93	5.67
1964	5.86	10.00	1.10	7.07	2.84	20.11	43.16	2.03	21.48	6.51	-0.02
1965	4.84	16.4	13.29	4.00	8.00	- 5.15	27.94	0.66	1.39	6.51	4.43
1966	9.15	8.46	12.88	-3.32	6.40	20.36	18.67	-13.82	16.59	8.57	13.55
1967	34.63	39.1	15.16	41.92	35.40	38.67	4.84	69.46	33.11	34.87	-0.7

Table 3 Continued

Year	1	2	3	4	5	6	7	8	9	10	11
1968	40.1	4.21	19.67	10.77	13.10	33.23	18.01	-89.19	19.02	14.44	8.33
1969	18.81	4.5	7.66	- 4.44	11.13	18.92	12.33	300.00	14.82	12.00	11.62
1970	56.51	7.09	9.64	- 1.69	34.07	7.84	-27.23	48.61	3.91	26.79	6.10
1971	-8.34	13.02	- 4.29	21.00	8.04	8.39	40.18	59.81	9.31	8.29	9.16
1972	9.38	10.72	16.30	32.82	14.71	19.79	23.41	25.58	20.02	15.81	7.94
1973	3.68	16.44	5.08	3.06	5.70	13.01	21.45	- 7.41	13.94	7.41	4.93
1974	15.42	11.42	11.19	-13.19	8.00	40.66	53.28	-42.0	41.55	15.37	2.43
1975	21.71	17.49	20.77	85.80	32.45	88.24	-15.33	468.96	74.17	43.71	9.37
1976	-6.48	6.70	- 10.27	-34.45	-11.60	- 30.31	23.28	98.52	- 25.08	-16.01	-1.66
1977	-1.38	20.13	3.12	92.38	20.86	35.31	-19.89	-20.	27.22	22.71	0.79
Annual Average	10	11	8.8	9.5	11.	15.5	14.5	3.5	15.5	12	5.5

Key : for Table

1. Administration Recurrent
2. Social "
3. Economy "
4. Others "
5. Total "
6= Economy Capital
7= Social "
8= Others "
9= Total "
10= G.Total "
11 = GNP

Table 4. Percential Distribution of Expenditure Among Services.

Computed from the Annual Actual Budget Report of the MOF

	R E C U R R E N T								C A P I T A L							
Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
1958	46.4	38.4	16.6	13.8	7.3	6.1	29.7	24.6	82.9	85.2	14.5	55.0	0.9	9.8	17.1	1. Share of administration from recurrent
1959	45.4	38.3	19.0	16.0	8.5	7.2	27.1	22.8	84.3	73.6	11.5	9.4	1.5	17.0	15.7	2. Share of Administration from total
1960	46.8	39.5	17.4	14.7	8.8	7.5	27.0	33.8	84.6	77.0	11.9	14.3	2.2	8.7	15.4	3. Share od Social for Recurrent
1961	46.5	39.8	17.6	15.1	7.9	6.8	28.0	24.0	85.7	56.3	8.1	35.7	5.1	8.0	14.3	. Recurrent
1962	44.5	36.4	20.2	16.5	8.8	7.3	26.5	21.7	81.9	61.0	11.1	28.4	5.1	10.6	18.1	4. Share of Social From total
1963	42.7	34.3	21.3	17.1	9.0	7.2	27.0	21.7	80.3	72.8	14.3	15.3	3.0	11.9	19.7	5. Share of Economy from Recurrent
1964	44.0	34.1	22.8	17.7	8.8	6.8	24.4	18.9	77.5	72.0	16.2	18.0	4.0	10.0	22.5	6. Share of Economy From Total
1965	42.7	33.6	24.5	19.3	9.3	7.2	23.5	18.5	78.6	67.3	14.4	22.7	4.9	10.0	21.4	7. Share of others from Recurrent.
1966	43.8	33.7	25.0	19.3	9.8	7.5	21.4	16.5	77.0	69.5	16.0	23.1	5.3	7.4	23.0	8. Share of Others from Recurrent.
1967	43.6	33.7	25.7	19.3	8.3	6.4	22.4	17.3	77.3	72.4	16.4	18.2	4.1	9.4	22.7	9. Share of from Total

Table 4 Continued

	R E C U R R E N T								C A P I T A L						
Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1968	54.0	41.3	21.8	16.6	8.8	6.7	15.4	11.8	76.4	81.1	19.1	18.1	4.3	0.8	23.6
1969	57.7	43.8	20.5	15.5	8.5	6.5	13.3	10.1	75.9	84.0	20,3	13.8	3.3	2.2	24.1
1970	66.9	53.7	16.4	13.1	6.9	5.6	9.8	7.8	80.2	87.2	17.3	9.7	1.9	3.1	19.8
1971	56.8	45.4	17.1	13.7	6.1	4.9	20.0	16.0	80.0	86.4	17.3	12.4	2.5	1.2	20.7
1972	54.1	42.9	16.5	13.1	6.3	5.0	23.1	18.3	79.3	86.2	17.9	12.6	2.6	1.2	20.7
1973	53.1	414	18.2	14.2	6.2	4.9	22.5	17.5	78.0	85.5	18.8	13.5	3.0	1.0	22.0
1974	56.7	41.4	18,8	13.7	6.4	4.7	18.1	13.2	73.0	84.9	22.9	14.7	4.0	0.4	27.0
1975	52.9	35.1	16.6	12.2	5.9	3.9	25.4	17.1	67.3	91.8	30.0	7.1	2.3	1.1	32.7
1976	55.2	39.1	20.1	14.2	5.9	4.2	18.8	13.3	70.8	85.4	24.9	11.7	3.4	2.9	29.2
1977	45.0	31.4	20.0	13.9	5.0	3.5	30.0	20.9	69.7	90.9	27.5	7.4	2.2	1.8	30.3

10. Share of

11. Share of economy from total

12. Share of Social from Capital

13. Share of Social From Capital

14. Share of others from capital

15. share of Social from total.

Table 5

Government REVENUE & EXPENDITURE (PLANNED BUDGET) IN MILLION BIRR

	1978	1979	1980	1981	1982
A. Total Government Expenditure	4398.4	4593.9	5133.2	6042.7	6539.1
1. Recurrent Expenditure	2466.8	2638.8	3097.1	3759.0	4153.5
- Share from total %	56.1	57.4	60.3	62.2	63.5
1.1 Administration	1254.9	1294.6	1426.0	1865.8	2132.2
- Share from recurrent%	50.9	49.1	46.0	49.6	51.3
1.1.1 State Organs	78.7	83.3	87.5	87.8	103.9
1.1.2 Defence &Security	1072.9	1104.4	1232.6	1655.5	1903.2
1.1.3 Foreign Affairs+ Information	41.6	43.5	43.0	48.1	48.1
1.1.4 Finance &Planning	61.7	63.4	62.9	74.4	77.0
1.2 Social Services	570.9	602,9	637.2	703.5	717.5
- Share from Recurrent%	23.1	22.8	20.6	18.7	17.3
1.2.1 Education	353.9	383.9	409.1	439.8	470.6
1.2.2 Health	115.7	125.8	133.5	141.4	149.8
1.2.3 Community Development	82.5	73.7	74.4	100.9	73.4
1.2.4 Culture+ Housing	18.8	19.9	20.2	21.4	23.7
1.3 Economics Services	169.2	178.4	205.2	224.8	237.7
- Share from Recurrent%	6.9	6.8	6.6	6.0	5.7
1.3.1 Agriculture	71.9	77.9	106.5	116.8	124.0
1.3.2 Industry	33.9	36.5	40.6	41.9	46.0
1.3.3 Transport	63.4	64.4	58.1	66.1	67.5
1.4 Others	471.8	562.9	828.7	964.9	1066.1
- Share from Recurrent%	19.2	21.3	26.8	25.7	25.7
1.4.1 Pension	108.6	116.9	126.1	135.0	148.2
1.4.2 Debt Payment	236.5	279.7	433.5	538.1	617.5
1.4.3 Allowance fro unforseen expenses	66.7	106.3	195.6	174.8	209.2
1.4.4 Subsidy	60.0	60.0	73.5	117.0	91.2
2. Capital Expenditure	1931.5	1955.1	2036.1	2283.7	2385.6
- Share from total %	43.9	42.6	39.7	37.8	36.5
2.1 Economy	1756.2	1765.8	1827.5	2011,2	2135.7
2.2 Social	155.6	144.7	198.1	256.2	208.6
2.3 Others	19.8	14.6	10.5	16.7	41.3
B. Revenue	4398.4	4593.9	5133.2	6042.7	6539.1
1. Domestic Revenue	2479.0	2697.8	2894.4	3047.9	2985.4
Share from total%	56.4	58.7	56.4	50.4	45.7
1.1 Tax revenue	1620.2	1892.4	1984.8	1864.3	2190.4
1.2 Non-Tax "	858.8	805.4	909.6	1183.6	795.0
2. Loan and Assistance	1046.7	984.1	1101.3	1280.2	1432.2
- Share from total %	23.8	21.4	21.8	21.2	21.9
3. Domestic Borrowing	872.7	912.0	1137.5	1714.6	2121.5
- Share from total %	19.8	19.9	22.2	28.4	32.4

Source : Negarit Gazetta for each fiscal year

Table 6. Actual Revenue in Million Birr

Year	Domestic Revenue						Loan and Borrowing						
	Tax	% Sbare	Non-Tax	% share	Total	%Pro total	External Loan	%	Borrowing	%	Total	%	Total Financing
1958	283.0	85.7	47.2	14.3	330.2	70.1	143.1	97.9	3.0	2.1	146.1	29.9	470.3
1959	309.7	83.7	60.2	16.3	369.9	75.0	119.4	96.8	3.9	3.2	123.3	25.0	493.2
1960	316.1	81.8	70.3	18.2	386.4	73.9	113.5	83.2	23.0	16.8	136.5	26.1	522.9
1961	332.1	81.9	73.3	18.1	405.4	76.4	108.8	87.0	16.2	13.0	125.0	23.6	530.4
1962	371.8	86.6	57.3	13.4	429.1	73.3	136.3	87.4	19.6	12.6	155.9	26.7	585.0
1963	407.1	87.4	58.9	12.6	466.0	73.8	154.1	93.2	11.3	6.8	165.4	26.2	631.4
1964	433.2	87.5	61.5	12.5	494.7	73.5	155.4	87.4	22.4	12.6	177.8	26.5	672.5
1965	483.8	86.9	72.4	13.1	556.2	77.6	150.6	93.7	10.1	6.3	160.1	22.4	716.3
1966	537.1	86.9	81.0	13.1	618.1	79.5	161.6	98.8	2.0	1.2	163.6	20.5	777.7
1967	589.8	82.9	121.8	17.1	711.6	67.8	210.1	62.2	127.2	37.8	337.3	32.2	1048.9

Source : Annual Actual Budget Report of the MOF

Table 6 Continued

Year	Domestic Revenue						Loan and Borrowing						Total Financing
	Tax	% Share	Non-Tax	% Share	Total	% to Total	External Loan	%	Borrowing	%	Total	%	
1968	613.3	78.5	167.7	21.5	781.0	65.0	199.1	47.5	220.3	52.5	419.4	35.0	1200.4
1969	855.8	84.6	155.3	15.4	1011.1	75.2	187.9	56.4	145.5	43.6	333.4	24.8	1344.5
1970	938.9	79.0	248.4	21.0	1187.3	69.6	161.2	31.1	356.2	68.9	517.4	30.4	1704.7
1971	1146.5	83.0	235.0	17.0	1381.5	74.8	387.2	83.3	77.4	16.7	464.6	25.2	1846.1
1972	1298.2	82.8	269.3	17.2	1567.5	73.3	340.4	59.7	230.1	40.3	570.5	26.7	2138.0
1973	1360.1	77.5	395.1	22.5	1755.2	76.4	337.6	62.3	203.7	37.7	541.3	23.6	2296.5
1974	1435.3	76.5	440.3	23.5	1875.6	70.8	757.5	97.8	16.5	2.2	774.0	29.2	2649.6
1975	1558.0	71.6	616.4	28.4	2174.4	57.1	703.5	43.1	929.9	56.9	1633.4	42.9	3807.8
1976	1730.6	75.5	562.5	24.5	2293.1	71.7	492.0	54.3	413.0	45.7	905.0	28.3	3198.1
1977	1677.5	72.2	645.8	27.8	2323.3	5912	1008.2	62.9	593.1	37.1	1601.3	40.8	3924.6

high income brackets. This build-in progressive nature of the tax system allows the government to earn high tax revenue. Secondly, the progressiveness of the tax system has a levelling effect on income, narrowing down the income gap between the rich and the poor.

Another effect of taxation in the economy can be its impact on effective demand. Taxation has the power to reduce effective demand, amd as a result reduce consumption.

Basically, before any type of tax is introduced, consideration should be made on the possible effect of each additional type on productivity, on its rewenue yield capacity, its effect on inflation, on the depressing effect on consumption and investment. There are some divergences and conflict among all fiscal objectives. Thus, any policy should try to minimize the negative effects of each.

One very controversial issue raised in relation to revenue is, whether the existing taxation is enough or not. Since this is a normative statement, all approachs are subjective, meaning we can not definitely prove or disprove the point. But it is not a point to be left aside. One general approach applied to assess whether any existing level of taxation is large or small has been to use the "tax effort " concept. "Tax effort" is the ratio of actual tax collected to the

potential taxable capacity. For the period upto 1966, Eshetu has this to say: " Looked at comparatively, i.e, in comparison with other domestic sources of revenue, it has played an undeniable crucial role. However, in comparison with what was potentially possible, and with the performance of other countries in comparable situation,it left much to be desired." (28, p.101)

However, the above approach, i.e, the analysis on the basis of tax effort, has been criticized on many grounds. One such criticism is, its failure to consider the demand for government expenditure, in determing the level of taxation.

Government expenditure being the main concern of the present study, it is discussed in detail in later sections. But here, we will see the relationship between revenue, expenditure and deficit financing.

Government expenditure is composed of recurrent and capital. Among other sources of fund, these expenditures, are financed by the general tax. But, the nature of capital expenditure requires modern capital goods that have to come from external sources through foreign exchange. Thus, a significant portion of capital expenditure is financed by loan. The contribution of domestic saving in financing investment is insignificant. In fact, domestic revenue being inadequate to finance the recurrent expenditure, is supplemented by

domestic bank borrowing. Deficit financing is a situation where the government obtains an important portion of its budget by borrowing from individuals and commercial banks. If the government obtains its revenue from borrowing, it is likely to bring about an increase in the effective demand for goods and services.

The application of deficit financing becomes greater during war periods, to fight deflation and to fight problems of unemployment (12, p.30). Increasing tax inorder to finance wars may be possible in the long run. But, it is politically less risky to obtain additional funds through deficit financing rather than increasing tax. However, deficit finance does not mean complete avoidance of tax. The money borrowed by the government plus the interest has to be paid back from future year's tax.

If we look at table 1, the ratio for domestic revenue is more than 90 percent. This may be as a result of understating revenue for a given fiscal year. On the other hand borrowing is low and inconsistent. This could also be due to better revenue collection or/and reduced government expenditure. It is possible for a number of government investment programs to be cancelled in the middle of the year. The low ratio of borrowing could be one of the reasons for the low ratio of capital expenditure. But, it

could also be due to other reasnns like poor project implemention, problems associated with obtainging loan and assistance. The possibility to re-allocate funds from capital to recurrent at any time of the year, may also be mentioned as one factor for the low ratio of borrowing. Even though it may not be possible to say any definite thing on the level of deficit in any fiscal year, its use for a long period can cause great damage to the economy.

3.3 Procedures in the Allocation of Government Expenditure

The collection of tax has a long history in Ethiopia(28). However, it was tax in kind, which was not based on systematic financial regulations. The history of contemporary government budget in Ethiopia started after the end of the Second World War.

Under this section, government budget in its historical setting is reviewed. This is supported by a review of the institutions involved and procedure and technique commonly applied in the allocation of expenditure. Obviously the objective of this section is to show how institutions and procedures influence the allocation of expenditure among alternative programs.

In Ethiopia, as well as in other countries, government budget has two main features:

a) it is the legal authorization for the expenditures contained in it and,

b) it is the means for bringing together a comprehensive estimate of those expenditures and of the government's anticipated revenues (7, p. 261).

The first published budget for Ethiopia appeared for the fiscal year of 1945, and on the basis of 1955 constitutio, the present format of government budget was formulated(7,35). The constitution specified the definition of power of the Ministries, Council of Ministers, and legislative body. Gradually, government budget has undergone significant changes, in the field of technical preparation of expenditure; in revenue estimation and collection and overall financial controls. As far as the comparison between pre- and post-revolution is concerned, there is more pronounced government participation in the later period.

Yet, the estimation of revenue and expenditure; the continued overuse of deficit financing and the country's experience in the use of foreign loan require critical analysis. However, as has been spelled out at the beginning of the study, the concern here is more on expenditure.

As has already been stated, government expenditure does not include the public sector as a whole. As far as recurrent expenditure is concerned, it is mainly about ministries and their departments and agencies. Public enterprises that generate income are outside the Central Treasury. However, any investment for expansion of an existing one or a new public enterprise, should be accomadated on by the government's capital expenditure.

The process of allocation of recurrent expenditure starts with the establishment of ministries and departments. It is not clear where the proposal for opening up of a new institution starts. Once the proposal has been accepted by the Council of Ministers, the organizational structure of that particular institution has to pass through the Ethiopian Management Institute (EMI). Any proposal to restructure an office in a ministry or any budgetary organization is refered to the EMI, which will review the new structure and the manpower implication. If satisfied, the EMI, reports to the Council of Ministers, before details are forwarded to the Central Personnel Agency(CPA), for the jobs to be classified and graded (35).

Consequently, the CPA on its part, based on the responsibility rendered upon it, issues, alters and supplements rules and regulations on personnel matters, like recruitment,

selection, appointment, training rights and duties for workers' leave, promotion, transfer, resignation, retirement and dismisal. It also issues principles and standards for position, classification, salaries, allowances and other benefits. Even though no specific study has been made to show the case, it can in general be said that the implementation of the above functions can affect the growth of government expenditure.

Once any ministry or department is allowed to be established, that particular institution prepares proposal on expenditure requirements. The basis for estimating the expenditure proposal has two features. The first one is personnel requirement with the salary scales approved by the CPA. The other one is concerning materials and supplies with many details on line-item basis.

After compliting the above process, the proposal is submitted to the Ministry of Finance. Here, the Budget Department studies the details of the proposal. It is very essential to make critical assessment of the methods of approprating fund. It is believed that, the appropration technique itself has significant contribution to the growth and allocation of fund among services and sectors. However, it is erroneous to suggest that the technique or the MOF to be the cause for the growth or allocation of expenditure.

Based on my personal experience at the Budget Department in the MOF, it can be said that, the methods and techniques applied are more or less a combination of line-item, and performance budgeting, which have some merits for accountability. The process of allocating fund, at the MOF level, is carried out by a committee composed of relevant department heads. A lot of discussion, negotations and bargaining is done before agreeing on a certain level for any expenditure item. In the first place, expenditure proposals are presented on detailed items. Based on this, members of the committee, with the help of an expert on each, review the request. No one can deny the subjectvity of some of the techniques applied. It should not however lead one to conclude that the whole process is based on subjective techniques.

As far as capital expenditure is concerned, the request is presented to the planning body. The negotation, bargaining seen concerning recurrent are repeated there more less in a similar way. As the COM, EMI, and CPA clear the ground for any department to be included in recurrent expenditure, the case with capital expenditure appears to be different. Each ministry works out plans based on the overall national plan.

Finally, recurrent and capital together, with the financing of each, i.e, domestic revenue, external loan and domestic

borrowing, are decided at the Council of Ministers and finally has to be approved by the legislative body.

As mentioned earlier, the objective of this section was to show the institutions involved in the process of budget allocation, their power, the techniques they apply. Failure to apply good technique can cause failure in the overall process. However, a good technique alone, cannot guarant success in the budget of the Government. We will see in section 4.1.3 how such procedure and technique cause increases in government expenditure

3.4 STRUCTURE OF GOVERNMENT EXPENDITURE

In broad terms, Government expenditure has two components, recurrent and capital. There is no definite line dividing the two. However, capital expenditure may loosely be taken to mean government expenditure for economic and social development expressed in financial terms. Investment by the non-public sector is based on clear benefit (profit) objectives. Some government investments may have the same objective as the private sector, but in most cases this is not a necessary condition for government capital expenditure.

Table 7. Actual Recurremt Government Expenditure for Administrative Services in Million Birr Computed From the Annual Actual budget Report of the MOf

Year	1		2		3		4		5		Total 1+2+3+4+5	
		%	Birr	%	Birr	%		%		%		%
1958	13.2	7.3	12.0	6.6	76.7	42.4	63.2	35.0	15.7	8.7	180.8	
1959	14.1	7.5	14.6	7.7	73.5	38.9	69.3	36.7	17.3	9.2	188.8	4.4
1960	14.4	7.0	14.0	6.8	86.8	42.0	69.5	33.6	21.9	10.6	206.6	9.4
1961	16.8	8.0	13.9	6.6	86.8	41.1	75.1	35.5	18.6	8.8	211.2	2.2
1962	13.4	6.3	16.4	7.7	85.3	40.0	80.9	38.5	16.0	7.5	213.0	0.9
1963	15.7	7.2	15.2	7.0	87.4	40.3	81.3	37.5	17.1	8.0	216.7	1.7
1964	16.5	7.2	16.2	7.0	92.8	40.4	86.1	37.6	17.9	7.8	229.4	5.9
1965	16.0	6.7	17.9	7.4	96.1	39.9	90.8	37.6	19.7	8.2	240.5	4.8
1966	16.1	6.1	17.7	6.8	105.8	40.3	103.0	39.2	19.9	7.6	262.5	9.1
1967	10.1	2.9	17.8	5.0	184.9	52.3	120.5	34.1	20.1	5.7	353.4	34.6

1. State Organs
2. Foreign Affairs + In/Ornation
3. Defence
4. Internal Affairs & Judiciary
5. Finance and Planning
6. Annual growth Rate of the Service
7. Percential Share from the Service

Table 7 Continued

	1		2		3		4		5		1+2+3+4+5= Total	
Year	Birr	%	Birr	%	Birr	%		%		%		%
1968	10.5	2.1	20.1	4.4	315.6	63.7	127.7	25.8	21.2	4.3	495.1	40.1
1969	16.3	2.8	24.8	4.2	383.1	65.1	138.9	23.6	25.3	4.3	588.4	18.8
1970	20.5	2.2	27.3	3.0	703.4	76.9	136.3	14.9	27.5	3.0	915.0	55.5
1971	25.4	3.0	25.2	3.0	627.6	74.9	127.7	15.2	32.3	3.9	838.2	- 8.4
1972	22.6	2.5	27.8	3.0	695.7	75.9	134.3	14.7	36.1	3.9	916.5	9.3
1973	26.4	2.8	29.6	3.1	727.2	76.5	128.6	13.5	38.9	4.1	950.7	3.7
1974	62.9	5.7	31.0	2.8	835.6	76.1	128.1	11.7	39.8	3.6	1097.4	15.4
1975	52.3	3.9	35.3	2.6	1062.3	79.6	141.1	10.6	44.5	3.3	1335.5	21.7
1976	55.7	4.5	38.9	3.1	939.1	75.2	161.9	13.0	53.5	4.2	1249.1	-6.5
1977	48.3	3.9	39.7	3.2	926.3	75.2	165.8	13.5	51.8	4.2	1231.9	-1.4

Table 8. Actual Recurrent Government expenditure for Economic & Social Services in Million Birr

	ECONOMIC SERVICES								SOCIAL SERVICES									
	1		2		3		1+2+3 Total		1		2		3		4			
	Birr	%	Birr	%	Birr	%	Birr	r	Birr	%	Birr	%	Birr	%	Birr	%	Birr	%
1958	6.6	23.1	4.9	17.1	17.1	59.8	28.6		40.7	62.7	17.9	27.6	4.1	6.3	2.2	3.4	64.9	
1959	8.4	23.5	6.3	17.6	21.0	58.8	35.7	24.8	53.0	67.3	18.6	23.6	4.8	6.1	2.3	2.9	78.8	21.4
1960	9.0	23.1	6.2	15.9	23.8	61.0	39.0	9.2	50.4	65.5	19.5	25.3	4.8	6.2	2.3	3.0	77.0	2.3
1961	10.0	23.8	6.0	14.3	26.0	61.9	42.0	7.7	54.4	67.9	18,8	23.5	5.5	6.8	2.5	3.1	80.1	4.0
1962	10.5	24.7	5.4	12.7	26.6	62.6	42.5	1.2	68.6	71.1	20.6	21.3	5.2	5.4	2.1	2.2	96.5	20.5
1963	11.5	25.3	6.0	13.2	27.9	61.5	45.4	6.8	76.3	70.7	23.4	21.7	5.8	5.4	2.4	2.2	107.9	11.8
1964	12.4	27.0	6.7	14.6	26.8	58.4	45.9	1.1	85.0	71.6	24.9	20.9	6.3	5.3	2.6	2.2	118.7	10.0
1965	13.7	26.0	7.5	14.4	32.4	59.6	52.0	3.3	96.5	69,8	30.0	21.7	9.0	6.5	2.7	2.0	138.2	16.4
1966	14.9	23.4	8.8	15.0	35.0	59.6	58.7	13.0	107.4	71.7	31.9	21.3	7.8	5.2	2.8	1.8	149.9	8.5
1967	18.1	26.8	8.9	13.2	40.6	60.0	67.6	15.0	138.2	66.3	33.8	16.2	33.7	16.2	2.8	1.3	208.5	39.1
1968	24.2	30.0	11.6	14.3	45.1	55.7	80.9	20.0	132.9	66.5	43.9	21.5	18.3	9.2	5.5	2.8	199.7	4.2
1969	25.8	29.6	10.7	12.3	50.6	58.1	87.1	7.6	134.7	64.5	49.4	23.7	16.8	8.1	7.8	3.7	208.7	4.5
1970	29.2	30.6	11.5	12.0	54.8	57.4	95.5	9.6	138.5	62.	51.5	23.0	22.3	10.4	10.2	4.6	223.5	7.1
1971	33.0	36.1	14.1	15.4	44.3	48.5	91.4	4.3	155.9	61.7	59.4	23.5	25.5	10.1	11.9	4.7	252.6	13.0
1972	35.9	33.8	21.5	20.2	48.9	46.0	106.3	16.3	179.6	64.2	65.1	23.3	23.9	8.5	11.1	4.0	279.7	10.7
1973	37.2	43.4	25.9	23.2	48.5	43.4	111.7	5.0	205.4	63.1	76.9	23.6	31.3	9.6	12.1	3.7	325.7	16.5
1974	43.1	34.7	26.6	21.4	54.5	43.9	124.2	11.2	238.2	65.6	75.3	20.8	37.0	10.2	12.4	3.4	362.9	11.4
1975	50.0	33.3	36.8	24.5	63.3	42.2	150.0	20.8	269.4	63.2	83.0	19.5	59.2	13.9	14.8	3.4	426.4	17.5
1976	52.7	39.2	28.3	21.0	53.6	39.8	134.6	-10.3	296.7	65.2	84.9	18.7	57.8	12.7	15.6	3.4	455.0	6.7
1977	56.7	40.9	28.7	20.7	53.4	38.4	138.8	3.1	325.3	59.5	98.8	18.2	105.7	19.2	16.8	3.1	546.6	20.1

Key :

1. Agriculture
2. Industry Mining Energy , Water, Trade
3. Transport & Communication

r. Annual growth rate
% Percential share from the Service

1. Education
2. Health
3. Community Development Social Affairs
4. Culture & Housing

r. Annual rate of growth
% Percential share from the Service

Table9. Government Expenditure for Public Debt

Year	Internal Debt Payment		External (Principal)		External/Interst		Total Public Debt		
	Million Birr	%	Million Birr	%	Million Birr	%	%	% R	% Total
1958xx							11.4	2.9	2.4
1959xx							27.9	6.7	5.7
1960xx							33.8	7.7	6.5
1961xx							36.1	7.9	6.8
1962xx							33.7	7.0	5.8
1963xx							35.2	6.9	5.6
1964	7.4	1.4	27.0	5.2	6	-	34.3	6.6	5.1
1965	8.2	1.5	27.0	4.8	-	-	35.2	6.3	4.9
1966	8.4	1.4	15.9	2.7	9.3	1.5	33.6	5.6	4.3
1967	10.5	1.3	16.0	2.0	19.6	1.2	36.1	4.5	3.4
1968	22.6	2.5	17.6	1.9	10.3	1.1	50.5	5.5	4.2
1969	30.6	3.0	18.4	1.8	11.8	1.2	60.8	6.0	4.5
1970	36.6	2.7	15.9	1.2	12.6	0.8	64.1	4.7	3.8
1971	45.7	3.1	15.1	1.0	12.7	0.9	73.5	5.0	4.0
1972	48.4	2.9	15.8	0.9	15.1	0.9	79.3	4.7	3.7
1973	61.9	3.5	14.9	0.8	15.9	0.9	92.7	5.2	4.0
1974	66.1	3.4	19.9	1.0	17.7	1.0	103.7	5.4	3.9
1975	70.5	2.8	21.6	0.8	20.8	0.8	112.9	4.4	3.0
1976	120.5	5.3	29.1	1.3	26.9	1.2	176.5	7.8	5.5
1977	196.4	7.2	41.2	1.5	29.1	1.0	266.7	9.7	6.8
1978x	136.1	5.5	62.0	2.5	38.4	1.6	236.5	9.6	5.4
1979x	133.2	5.1	92.5	3.5	54.0	2.1	279.7	10.6	6.1
1980x	209.6	6.8	145.1	4.7	78.8	2.5	433.5	14.0	8.5
1981x	254.5	6.8	195.9	5.2	87.7	2.3	538.1	14.3	8.9
1982x	266.3	6.4	251.6	6.1	99.5	2.4	617.4	14.9	9.4

X= Planned R= Recurrent

XX= Only aggregate data is Available

Source: Computed Annual Acyual from the budget reports of the MOF

On the other hand, recurrent expenditure is related to financial outlays by the government to run state machinery, administration of government, defence and security, provision of social and economic services. The general feature of such kind of expenditure is that, they have a nature to repeat themselves every fiscal year. Unlike capital expenditures, recurrent expenditures are mainly for consumption. Some problems regarding the consumption behavior of recurrent can be raised in the case of education and health. Recurren expenditure for these two subsectors of the social sector play very significant role in improving the quality of the labor force. Therefore they are partly investment.

In this section government expenditure and its structure is discussed. What we mean by structure is the relationship between recurrent and capital, distribution of expenditure among different programs(services and sectors). The method of analysis at this stage is:

1. locking at the absolute amount of fund allocated to each program;
2. wprking out percential ratio for each expenditure component
   a) ratio to total government expenditure;
   b) ratio to GNP.
3. working out annual growth rates and annual average growth rates.

Some of the objectives for using the above methods are:

1. a look at the absolute figures has an importance which is not expressed by ratio and growth rates. No matter how large or small a growth rate or ratio is, it by and large depends on the absolute figure.
2. unless the above method is supported by comparison of each expenditure item against others, the magnitude & weight attached to each can not be clear. For instance it may be pointless to say any amount of money is allocated to any specific program in a given fiscal year, unless we know its percential share in the total expenditure or in GNP.
3. shifts in the allocation of expenditures over time can be explained using growth rates. Annual growth rate, and annual average growth rate are used, the second one having the merit of showing the overall behavior of each expenditure item during the 20 years in one figure, ignoring the ups and downs in annual growth rates.

TOTAL GOVERNMENT EXPENDITURE

Total government expenditure for 1958 was 470.3 million Birr. This is 14.7 percent of GNP. In 1966, the final year for the earlier regime, the figure was 777.7 million Birr, which accounted for 15.1 percent of GNP. Quite remarkable change in government expenditure occured since

the change in Government in 1967. The ratio of government expenditure to GNP for 1967 was 20.6 percent, and after ten years, i.e, in 1977, this ratio reached to 44 percent of GNP. Annual average growth rate of government expenditure from 1958 upto 1977 was 12 percent. If we consider the behavior of the growth on annual basis, we observe annual growth rates as high as 43.7 percent for 1975, 34.8 percent for 1967, and 26 percent for 1970; and as low as minus 16 percent for 1976, 1.4 percent for 1960. As far as the annual growth rate for GNP is concerned, decline bas been recorded for 1964, 1976, and 1977. Significant growth in GNP was observed for 1966, 1969 and 1975.

RECURRENT EXPENDITURE

Inorder to get a better insight of the total, government expenditure, a closer look at its two components is essential. Recurrent expenditure for 1958 was 390 million Birr, taking 12.2 percent out of GNP, and 82.9 percant out of the total government expenditure. The share of recurrent out of the total continued to claim more than 80 percent for the period from 1958 upto 1963, and also for the years betwee 1969 upto 1972. For the years 1975, 1976 and 1977, the figure showed a decline, at around 70 percent. In fact , if we look at Table 5, the share of recurrent for 1978 was 56.1 percent, for 1979 it was 57.4 percent, for 1980 it was 60.5 percent, for 1981 it was 62.2

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and for the current year of 1982 it is 63.5 percent.

As far as the behavior of recurrent expenditure before and after the revolution is concerned, in the pre-revolution period, government expenditure was mainly for recurrent. Public investment was minimal, during that period. Thus, the share of recurrent was very large, as we can see it from table 4, colmun 9. After the change of government, the budget assumed greater responsibility in promoting social and economic investment. If we compare the trend of the budget during the 20 years and that from 1978 upto 1982, we see a remarkable gap. For instance, the share of recurrent(actual) for 1977 was 69.7 percent and for 1978(planned) it was 56.1 percent. The later figure give wrong impression, because it gives high share of 43.9 percent for capital. What it all shows is that when budget allocations are decided initially, there is a tendency to favour investment. However, emperical evidence shows that, in the course of implementation, due to various factors, allocation for recurrent expenditure grows up very fast.

Another area of concern in this study should be the growth rate recorded by the two expenditure components. The annual average growth rate of total expenditure(12%) is very much the same to that of recurrent(11%), while that of capital was 15.5 percent. This is another indication of the heavy

pressure of recurrent in the total expenditure. To give some examples, let us look at the growth rates for 1974 and 1975. During these two years, capital expenditure grew by 41.5 percent and 74.2 percent, while total expenditure grew only by 15.4 percent and 43.7 percent respectively. The reason for the large gap between the two is as a result of the depressing effect of lower annual growth rates recorded by recurrent for the two years.

In order to simplify the analysis, it is important at this point to look at what services and sectors the recurrent and capital expenditures comprise of.

A. ADMINISTRATION AND GENERAL SERVICE

1. state organs
2. defence and internal security
3. foreign affairs and information
4. finance and planning

B. SOCIAL SERVICE

1. education
2. health
3. community development and social affairs
4. culture and housing

C. ECONOMIC SERVICE

1. agriculture
2. industry, nining & energy, water, trade

3. transport and communication, construction

D. OTHERS (TRANSFER PAMMENTS)

1. pension
2. public debt
3. provision for unforseen expenses
4. miscellenous

The share of Administrative Service(table 4 column 1 and 2) out of recurrent, amounted to 44 percent on the average for the years upto 1967. From 1968 upto 1977 the share of Administrative Service increased to 55 percent. This large share is due to the huge expence for defence. This is indicated in table 7 column 3. The share of defence and security out of Administrative Service was less than 40 percent for the years before the revolution. Since 1967, the share of defence out of expenditure for Administrative Service has been more than 80 percent.

Percential share of Defence and Security(Planned) - expenditure from 1978-1982(E.C)

Fiscal year	share from Administrative Service	share from recurrent	share from total
1978	85	43	24
1979	85	43	24
1980	86	40	24
1981	88	44	27
1982	89	45	29

Source: worked out from table 5

Social Service takes around 20 percent out of recurrent expenditure and around 15 percent out of total government expenditure. The structure of Social Service is given in table 8. Education takes between 60 to 70 percent out of the Social Service, with a declining trend. The share of health out of the Social Service has been more consistent, revolving around 20 percent. Among the sectors with in the Social Service, expenditure for community development and Social affairs has been growing fast. Before the revolution of 1967, the share of community development and social affairs remained less than 6 percent on the average. However, in 1977, it took 19 percent out of the recurrent expenditure. The main reason for this growth was due to relief and rehabilitation program

Government recurrent expenditure for Economic Service takes very little proportion. For the years under study, the share of Economic Service was around 10 percent. out of recurrent expenditure. This share has in 1977 been dropped to 5 percent out of recurrent expenditure and to 3.5 percent out of the total government expenditure. On the other hand however, large proportion of capital expenditure goes to Economic Service. Within the structure of recurrent for Economic Service, the share of agriculture increased from 25 percent at the beginning of the study period to 40 percent in 1977. On the other hand, the share of transport sector dropped from 50 percent in 1958 to 40 percent in 1977.

A component of Government recurrent expenditure but always not given sufficient attention is, the expenditure on group D (others or Tranfer payments). The pattern of this group of expenditure can be observed from table 4 column 7 and 8. We can see sharp annual changes in this type of expenditure. To give a simple example, its 13.3 percent share in 1976, increased to 20.9 percent in 1977. Within the D group of expenditure, we get Pension payment, expenses for public debt, provision for unforseen expenses and other micellenous expenses.

In earlier sections,we saw the contribution of loan and borrowing in the total financing of government expenditure. This source of fund is not without cost. It all has to paid back out of the tax the country collects. If we look at table 9, public debt payment takes less than 10 percent out of the total government expenditure. Another important point one can not fail to observe is, deficit financing started to be significant source of financing since 1967.

As far as the allocation or structure within capital expenditure is concerned, Economic Service takes more than 80 percent out of capital expenditure. The share of Social Service is very low and inconsistent.

To summarize the discussion on the structure of government expenditure, we saw the pattern and share of expenditure components , growth rates and the shate of total government expenditure in GNP. It is also to be remembered that, shifts in the compostion of expenditure were observed. However, the above format of analysis and review does not answer the question why government expenditure behaved that way. What are the factors behind the growth and allocation of government expenditure? The next chapter is then concerned with such issues.

CHAPTER FOUR

IV. IDENTIFICATION AND ANALYSIS OF THE DETERMINANTS OF GOVERNMENT EXPENDITURE

In the preceding chapter, Government budget was discussed in general terms. We saw that recurrent expenditure took more than 70 percent of the total. We also observed that expenditure on Administrative Service accounted for around half of the recurrent. In what was allocated as capital expenditure, Economic Service had the highest and fastest increasing shares.

We shall now try to uncover the reasons for the observed growth rates and ratios of sectoral distribution. Specifically we shall relate the distribution of expenditure with socio-economic variables using the technique of Multiple Regression.

4.1 IDENTIFICATION OF DETERMINANTS

4.1.1 The Multiple Regression

In Keynesian macro-economic analysis, government expenditure is taken as an exogenous factor, simply designed to alter short-term cyclical fluctuations. This does not mean, however that, it is not necessary or possible to explain

the level or pattern of government expenditure. The necessity to explain expenditure has come about due to, among other things, the enormous proportion of national resources it is claiming and the speed of its growth. Moreover, government expenditure has become a strong and essential instrument at the disposal of poor nations. At the same time, studies to explain government expenditure are facilitiated by the availability of suitable techniques. One of these is regression analysis, in which expnediture components as percentage to GNP are the dependent variables.

As far as the identification of explanatory variables is concerned, each expenditure component (dependent variable) will be related to a selected list of explanatory variables:

1. Per capita GNP

Each dependent variable will be related to per capita GNP. One reason (2, 15, 17, 19) for using per capita GNP is the positive relationship observed between the level of per capita GNP and level of government expenditure for advanced economies. Another basic reason for relating government expenditure to per capita GNP is , as a result of the increased demand created following greater incomes. However this increased demand is not homogenous for all goods and services. As GNP increases, we may expect the provision of more roads, hospitals and schools. However, there is no reason to expect government expenditure for

defence and national security to increase. Government defence expenditure may increase in absolute terms but not as a proportion of total expenditure or of GNP. Secondly, even though we may accept that as GNP grows so does the demand for goods and services, there is no reason for these to be provided by the government. It is possible that, as GNP per capita increases, people will have a better health standard and can afford to do their own affairs, with little government interference. But, in countries like Ethiopia, where per capita GNP is low, high illiteracy rate, poor health conditions, and the absence of infrastructure, means these functions cannot be performed by market forces.

2. Domestic Revenue

The second explanatory variable considered is the availability of domestic revenue. Usually, when expenditure decisions are proposed initially, they are based on the availability of domestic revenue. External loan and domestic borrowing or in general deficit financing are adjustment factors, when domestic revenue fails to meet expenditure requirement and the assumption held is, as the availability of dometic revenue grows, needless to say, the tendency to spend more is there.

3. Economic system

We have seen already that Pryor (19) regards the economic system as one of the determinants of the growth of government expenditure. In particular, the socialist economic system tends to bring about far greater growth in government expenditure than in capitalist countries. This may not be directly applicable to Ethiopia. However, since we have seen two types of governments, the earlier non-socialist and later on the non-capitalistry, we will consider the effect of this change in policy orientation.

4. Other Variables

Other variables to be considered include, the degree of opennes of the economy, the literacy rate of the population and the amount of loan and borrowing(32, 2). The degree of opennes of the economy is measured by the ratio of the volume of export and import to GNP. Increasing integration of a country into the international market, is often found out to be associated with increased government expenditure. This , however, is the result some researchers have measured the degree of literacy the community has attained, or is expected to attain, by the ratio of government expenditure on education to total government expenditure. Since

the justification given for including this variable is surrounded by controversy, the use of this variable in the regression model should be interpreted with caution. Finally, Burkhead suggests the use of government loan as an explanatory variable for expenditure.

On the basis of the above considerations, the following relationships can be formulated:

$$Y_i = b_o + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6$$

where Y_i stands for the ratio of an expenditure compoment to GNP; The expenditure ratios of interest are:

Y_1 = the ratio of total government expenditure to GNP;
Y_2 = the ratio of recurrent expenditure to GNP;
Y_3 = the ratio of capital expenditure to GNP;
Y_4 = the ratio of recurrent expenditure on Administrative service to GNP;
Y_5 = the ratio of defence expenditure to GNP;
Y_6 = the ratio of recurrent expenditure on Social Service to GNP;
Y_7 = the ratio of recurrent expenditure on education to GNP;
Y_8 = the ratio of recurrent expenditure on health to GNP;
Y_9 = the ratio of recurrent expenditure on Economic Service to GNP;
Y_{10} = the ratio of capital expenditure on Economic Service to GNP;
Y_{11} = the ratio of capital expenditure on Social Service to GNP;
Y_{12} = the ratio of recurrent plus capital expenditure on Economic Service to GNP;
Y_{13} = the ratio of recurrent plus capital expenditure on Social Service to GNP;

Table 10a Values for Dependent Variables

Year	Y_1	Y_2	Y_3	Y_4	Y_5	Y_6	Y_7	Y_8	Y_9	Y_{10}	Y_{11}	Y_{12}	Y_{13}
1958	14.7	12.2	2.5	5.7	2.4	2.0	1.3	0.6	0.9	2.5	0.1	3.0	2.1
1959	14.5	12.2	2.3	5.7	2.2	2.2	1.6	0.5	1.0	1.7	0.2	2.7	2.4
1960	14.5	12.3	2.2	5.7	2.4	2.2	1.4	0.5	1.1	1.7	0.3	2.8	2.5
1961	13.8	11.8	2.0	5.5	2.3	2.1	1.4	0.5	0.9	1.1	0.7	2.0	2.8
1962	14.0	11.5	2.5	5.1	2.0	2.3	1.6	0.5	1.1	1.5	0.7	2.5	3.0
1963	14.3	11.5	2.8	4.9	2.0	2.4	1.7	0.5	1.1	2.0	0.5	3.1	2.9
1964	15.2	11.8	3.4	5.1	2.1	2.7	1.9	0.6	1.1	2.4	0.6	3.5	3.3
1965	15.5	12.2	3.3	5.2	2.1	3.0	2.1	0.6	1.2	2.2	0.7	3.4	3.7
1966	15.1	11.7	3.4	5.1	2.1	2.9	2.1	0.6	1.2	2.4	0.8	3.6	3.7
1967	20.6	15.9	4.7	6.9	3.6	4.1	2.7	0.7	1.3	3.4	0.9	4.7	4.9
1968	21.7	16.6	5.1	9.0	5.7	3.6	2.4	0.8	1.4	4.2	0.9	5.6	4.5
1969	21.8	16.5	5.3	9.5	6.2	3.4	2.2	0.8	1.4	4.5	0.7	5.9	4.1
1970	26.0	20.9	5.2	14.0	10.8	3.4	2.1	0.8	1.5	4.5	0.5	6.0	3.9
1971	25.8	20.6	5.2	11.7	8.8	3.5	2.2	0.8	1.3	4.5	0.6	5.8	4.1
1972	27.8	22.0	5.8	11.9	9.0	3.6	2.3	0.8	1.4	5.0	0.7	6.4	4.3
1973	28.4	22.2	6.3	11.7	9.0	4.0	2.5	0.9	1.4	5.3	0.9	6.7	4.8
1974	31.9	23.4	8.6	13.2	10.1	4.4	2.9	0.9	1.5	7.3	1.3	8.8	5.7
1975	42.0	28.2	13.8	14.7	11.7	4.7	3.0	0.9	1.6	12.6	1.0	14.2	5.7
1976	35.9	25.4	10.5	14.0	10.5	5.1	3.3	1.0	1.5	9.0	1.2	10.5	6.3
1977	44.4	31.0	13.4	13.9	10.5	6.2	3.7	1.1	1.6	12.2	1.0	13.8	7.2

Table 10b Values for Independent Variables

Year	X_1	X_2	X_3	X_4	X_5	X_6
1958	119.9	10.4	26.7	8.6	31.1	0
1959	124.3	10.9	26.3	10.7	25.0	0
1960	129.5	10.7	24.2	9.6	26.1	0
1961	134.2	10.6	23.2	10.3	23.6	0
1962	143.2	10.3	23.8	11.7	26.7	0
1963	147.9	10.6	23.2	12.1	26.2	0
1964	144.5	11.1	24.2	12.6	26.4	0
1965	147.5	12.0	26.2	13.5	22.4	0
1966	160.5	12.1	28.9	13.8	21.0	0
1967	155.7	12.9	30.0	13.2	32.2	1
1968	164.5	12.7	28.6	11.1	34.9	1
1969	179.1	15.5	30.8	10.0	24.8	1
1970	185.1	16.6	32.7	8.1	30.4	1
1971	196.9	17.9	32.4	8.4	25.2	1
1972	207.1	19.4	38.4	8.4	26.7	1
1973	211.4	21.2	36.4	8.9	23.6	1
1974	210.6	22.7	36.7	9.0	29.2	1
1975	223.9	24.0	34.6	7.1	42.9	1
1976	214.0	25.8	40.2	9.3	28.3	1
1977	206.5	26.3	38.2	8.3	40.8	1

The explanatory variables considered are the following:

X_1 = per capita GNP in Birr;

X_2 = Domestic revenue/ GNP;

X_3 = Export plus import as a ratio of GNP;

X_4 = the ratio of recurrent government expenditure on education to total government expenditure;

X_5 = the ratio of external loans and domestic borrowing to total revenue;

X_6 = dummy variable for change of government;

As we can see from above, the dependent variables to be explained are total government expenditure and its components, such as recurrent and capital or distribution among services such as Administration, Social and Economy. The exercise can be extended to include more detailed sectoral break-down. But, since it is necessary to limit oneself to a manageable degree, we will limit sectoral analysis to defence and security, education and health.

4.1.2 REGRESSION RESULTS

1. Total Government Expenditure

A result of the stepwise regression analysis reported in table 11 is

$$Y_1 = -15.397 + 0.031X_1 + 1.243X_2 + 0.470X_5$$

1.698 0.015 0.098 0.037(standard error)

9.067 2.084 12.632 12.561(t values)

adjusted R^2 = 99.33%

Variables X_3, X_4, and X_6 were found to be not significant and were dropped by the stepwise procedure. According to the estimated equations, X_2 (domestic revenue) explained 93.88%of the variation in Y_1 , and X_5 (loan) improves R^2 by 5.4% , and X_1(per capita GNP) only by 0.15%. The overall adugsted R^2 for the equation is very large. Moreover, the coefficients in the equation all have the correct sign. It is an obvious point that the availability of revenue in a country determines the level of expenditure. Nevertheless, it should not lead us also to attribute the growth in expenditure only to the availability of domestic revenue. In fact, as the coefficient of domestic revenue indicates, a one percent increase in the ratio of domestic revenue to GNP, is associated with more than a 1.24 percent increase in the ratio of total expenditure to GNP. This is an indication that borrowing and loan play an important role in the determination of government expenditure. On the other hand , the per capita GNP variable(X_1), though statistically significant is very small. Variables like the degree of openness of the economy and literacy are not significant influences.

Table 11. Regression Results, Coefficients, T values and R^2

	X_1	X_2	X_3	X_4	X_5	X_6	R^2
Y_1 c	0.031	1.243			0.470		99.33
t	2.084	12.632			12.561		
Y_2 c		0.807		-0.047	0.195	1.612	98.49
t		14.686		2.082	5.304	2.887	
Y_3 c		0.713	-0.184	0.285	0.219		97.97
t		10.575	2.965	3.652	8.722		
Y_4 c		0.320		-0.486		2.729	95.31
t		5.476		3.916		4.622	
Y_5 c	0.062			-0.604		1.643	96.0
t	6.305			5.615		2.503	
Y_6 c	-0.012	0.233		0.244	0.043	0.773	97.86
t	3.093	10.491		9.519	5.108	5.046	
Y_7 c	-0.005	0.136		0.186	0.026	0.396	99.43
t	4.491	20.263		24.101	10.340	8.558	
Y_8 c		0.021				0.138	92.87
t		6.587				3.929	
Y_9 c	0.004			0.023	0.008	0.133	89.66
t	4.681			2.229	2.624	2.099	
Y_{10} c		0.638	-0.164	0.152	0.212		97.40
t		8.784	2.456	1.805	7.849		
Y_{11} c		0.061		0.101			72.23
t		7.145		4.168			
Y_{12} c		0.652	-0.142	0.176	0.222		97.38
t		8.469	2.003	1.979	7.758		
Y_{13} c	-0.009	0.307	0.047	0.342	0.042	0.980	97.95
t	-1.920	7.986	1.563	11 190	3.631	4.350	

Note: c = coefficient
t = t value
R^2 = adjusted R^2

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t	-1.920	7.986	1.563	11 190	3.631	4.350	

Note: c = coefficient
t = t value
R^2 = adjusted R^2

2. Recurrent Expenditure

As in the case of total expenditure, the most important explanatory variable is domestic revenue(X_2), contributing 94 percent to adjusted R^2. The other important variables on the basis of their contribution to R^2 are, loan and borrowing(X_5), dummy variable(X_6) and literacy proxy(X_4). The estimated equation is :

$$Y_2 = \underset{2.04}{0.912} + \underset{0.055}{0.807X_2} - \underset{0.118}{0.247X_4} + \underset{0.036}{0.195X_5} + \underset{0.558}{1.612X_6}$$

(standard error)

0.446 14.688 2.082 5.304 2.887 (t values)

adjusted R^2 = 98.5%

As far as the relationship between domestic revenue and recurrent expenditure is concerned the relevant coefficient indicates that as ratio of domestic revenue increases by one percent, recurrent increases by 0.8 percent. It thus confirms the tendency of allocating additional domestic revenue to consumption. A comparison of recurrent and domestic revenue for each year shows that domestic revenue cannot cover even the consumption expenditure, let alone supporting investment.

The coefficient of the dummay variable (for the change of government) is large and significant, indicating that the growth in recurrent expenditure is very much influenced by it. However, X_4, though significant, should be interprated with great caution. In general, as the rate of literacy increases, government supplied demand for goods and services should also increase. But, in this particular equation, the variable's contribution to R^2 is too low to indicate that the growing ratio of recurrent to GNP was not associated with a proportinate increase of government expenditure on education. The declining share of education will be explained later on.

Some important differences that can be observed between the behavior of recurrent and total expenditure are the following:

1. per capita GNP is a significant influence on the total but not on recurrent expenditure;
2. the dummy variable is a significant influence on recurrent expenditure but not on the total expenditure;
3. the ratio of government expenditure on education to total is a significant influence on recurrent expenditure but not in the total.

3. Capital Expenditure

The regression equation of this component is:

$$Y_3 = -9.337 + 0.714X_2 + 0.184X_3 + 0.285X_4 + 0.219X_5$$

1.766 0.067 0.062 0.078 0.025(st.error)

5.285 10.575 2.965 3.652 8.772(t values)

adjusted R^2 = 97.97%

The variables included are X_2, X_5, X_4 and X_3 in that order of importance. Variables like X_1 and X_6 are not significant influences. As in the case with the total and recurrent expenditures, the most important variables are domestic revenue(X_2) and loan and borrowing(X_5). Though significant the contribution of X_4 and X_3 to R^2 is very small.

So far we have seen the results of the regression analysis of the recurrent and capital expenditure components. Of all the explanatory variables considered, domestic revenue and loan & borrowing appear to be the most significant ones in each of the three equations. The percapita GNP variable appeares only in the equation for total expenditure, while the dummy is important only in explaining recurrent expenditure. Even though we notice a growing share of capital expenditure during the study period, the fact that the dummy variable is not important in explaining it, indicates that no significant change has occured in the

allocation for capital following the change of government. Despite some differences in standard errors and t values, the adjusted R^2 for the three equations is almost the same and large.

In order to get more insight into the nature of recurrent expenditure, we will decompose it into Administrative Service, Social Service and Economic Service components. The results are:

Administrative Service

$$Y_4 = 7.387 + 0.320X_2 - 0.486X_4 + 2.720X_6$$

1.807 0.058 0.124 0.590 (st. error)

4.086 5.476 3.916 4.622 (t values)

adjusted R^2 = [illegible]

Social Service

[illegible]

$$Y_6 = -2.268 - 0.012X_1 + 0.233X_2 + 0.244X_4 + 0.046X_5 + 0.77X_6$$

0.597 0.004 0.022 0.025 0.008 0.153 (st. error)

3.800 3.093 10.491 9.519 5.108 5.046 (t values)

adjusted R^2 = [illegible]

Economic Service

$$Y_9 = -0.033 + 0.004X_1 + 0.023X_4 + 0.008X_5 + 0.133X_6$$

0.236 0 0.010 0.003 0.063 (st, error)

0.142 4.681 2.229 2.624 2.099 (t values)

adjusted R^2 = 89.66%

Of all the variables considered in relation to Adninistrative Service, only domestic revenue, dummy and literacy proxy are significant. Indeed, we observe large coefficient for the dummy variable , confirming the already stated fact that under the post-revolution period the allocation of fund for administrative activities has been tremendous.

The negative sign associated with X_4 can be explained only by 'displacement effect', i.e, the fact that as the allocation for Administrative Service increases, education suffers proporational decline in percentage share. With the exception of X_3, all other variables are significant in the equation for Social Service. We also observe a negative coefficient for percapita GNP. This is because, while percapita has more or less shown an upword growth, the ratio of recurrent expenditure on Social Service to GNP remained almost the same.

Remarkably enough, X_2 is not significant in the equation of recurrent for Economic services. As in the other equations, X_3 is not significant either. Loan and borrowing though significant, has a very small coefficient. Even though still large, the equation for economic services has a smaller R^2 than the others.

Defence and Security

The tremendous growth recorded in government expenditure is due to that in recurrent, which in turn, is dominated by growth in funds claimed by Administration inclusive of defence expenditure. The regression result for defence is:

$$Y_5 = 0.333 + 0.062X_1 + 0.604X_4 + 1.640X_6$$

2.079 0.009 0.107 0.656 (st. error)

0.161 6.305 5.615 2.503 (t values)

adjusted R^2 = 96%

Looking at the variables included, we find per-capita to be significant with a positive sign. The positive sign contradicts results by other studies. As Pryor has suggested, the society does not necessarly increase its demand for defence as percapita GNP increases. However, the supply for increasing defence expenditure may increase.

The supply fof funds may be matched by domestic revenue or borrowing, but these are not significant in our equation. We also see that a strong competition for funds between education and defence is reflected in the negative sign of the coefficient of X_4. Growth in government expenditureon defence has been tremendous in the post-revolution period, as can be seen from the large coefficient of the dummy variable for change of government.

Education

All other variables except X_3 are significant here as in the equation for Social Service. The equation for education is:

$$Y_7 = -1.85 - 0.005X_1 + 0.136X_2 + 0.186X_4 + 0.026X_5 + 0.396X_6$$

0.180 0.001 0.006 0.007 0.002 0.046 (st. error)

10.263 4.491 20.263 24.101 10.340 8.558 (t values)

adjusted R^2 = 99.43 %

Health

The regression equation for this component is :

$$Y_8 = 0.313 + 0.021X_2 + 0.138X_6$$

0.038 0.003 0.035 (st. error)

8.100 6.587 3.929 (t values)

adjusted R^2 = 92.87 %

In contrast to the preceeding equations, only domestic revenue and the dummy are significant here with a very small value of the coefficient of the former.

To better understand our regression results, one thing should be noted. This is that, in the allocation of funds, the capital and recurrent expenditures are competitive. A growth in one of them is possible in a number of ways: either at the expense of the other, (decline, constant or less increment) or by mobilizing large additional resource to effect high growth in both. However, the components may also be complimentary. For instance, if there is continuous and sufficient investment on roads, the need to allocat capital can eventually decline, and only maintenance cost will be needed. It will be otherwise in other cases such as the building of schools or hospitals. Hence capital expenditure will induce growth in recurrent expenditure.

In the light of this, regressions were estimated for government expenditure on capital and recurrent together for Social Services and Economic Services. The equations are:

1. Social Services

Recurrent expenditure

$$Y_6 = -2.268 - 0.012X_1 + 0.233X_2 + 0.244X_4 + 0.046X_5 + 0.77X_6$$

adjusted R^2 = 97.86 %

Capital expenditure

$$Y_{11} = -1.288 + 0.061X_2 + 0.101X_4$$

adjusted R^2 = 72.23 %

(Recurrent + Capital) expenditure

$$Y_{13} = -2.88 - 0.009X_1 + 0.307X_2 - 0.047X_3 + 0.342X_4 + 0.042X_5 + 0.98X_6$$

adjusted R^2 = 97.95 %

The equations for Y_6 and Y_{13} are similar in all respects except for the appearance of X_3 in Y_{13} only. We can understand from Y_{11} that recurrent expenditure is more important than capital in Social Services.

2. Economic Services

Recurrent expenditure

$$Y_9 = -0.033 + 0.004X_1 + 0.023X_4 + 0.008X_5 + 0.133X_6$$

adjusted R^2 = 89.66 %

Capital expenditure

$$Y_{10} = -8.138 + 0.638X_2 + 0.164X_3 + 0.152X_4 + 0.212X_5$$

adjusted R^2 = 97.4 %

(Recurrent + Capital) expenditure

$$Y_{12} = -8.306 + 0.652X_2 - 0.142X_3 + 0.176X_4 + 0.222X_5$$

adjusted R^2 = 97.38 %

Unlike the case with Social Services, capital expenditure is more important in Economic Services. This can be seen from the similarity of the equations for Y_{10} and Y_{12}. The coefficients in the equation of Y_9 are very small, indicating the weak relationship between recurrent expenditure for Economy and the regressors considered.

4.1.3 Additional Factors Considered

There is no doubt that political, social, economic and other natural factors have major roles to play in determining government expenditure. Other than the variables included in the regression analysis of the last section, factors like war, drought, and other natural calamites, do affect the behavior of government expenditure. Planning is known to have influence on the size of the government budget, the allocation procedure or technique, the lewel of technology, efficiency in the working of the public sector, expansion of institution, the history of a country, the number and harmony of nationalities and other ethnic groups(19).

A detailed and successful analysis of all possible factors that can affect government expenditure is very difficult. We can nevertheless explore some of the relations ignored by our regression analysis.

Table 12 Units within Services of the Recurrent Government expenditure

Services \ Year	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
A. ADMINISTRATION																				
1. State organs	23	23	23	22	22	23	23	23	23	23	15	16	15	15	18	16	18	20	24	21
2. Foreign Affairs & Information	8	9	9	9	7	8	10	10	11	11	10	13	13	12	13	12	12	12	12	12
3. Defence	8	8	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	8	8
4. Internal Affair	11	10	9	9	9	9	9	9	9	9	7	7	7	7	7	6	7	6	8	8
5. Judiciary	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
6. Finance and Planning	6	6	6	14	13	14	14	13	16	15	15	15	16	18	19	18	18	18	21	23
total	58	58	56	63	60	63	65	64	68	67	56	60	60	61	66	61	64	65	75	74
B. ECONOMY																				
1. Agriculture	6	7	9	16	16	16	17	17	17	20	19	18	18	18	24	22	23	23	25	25
2. Industry, Mining Energy, water, Trade	7	8	8	7	9	10	12	14	14	15	18	18	20	22	26	25	26	27	24	24
3. Transport	9	8	8	11	11	10	10	8	9	8	9	11	10	7	7	6	7	7	7	7
total	22	23	25	34	36	36	39	39	40	43	46	47	48	47	57	53	56	57	57	56
C. SOCIAL																				
1. Education	12	12	12	12	15	15	15	16	16	16	15	15	15	16	22	23	23	24	24	24
2. Health	5	5	6	6	6	6	6	6	7	7	7	7	8	6	7	7	7	7	11	12
3. Labord Social Affairs	5	6	8	10	11	10	10	9	10	9	12	15	18	15	15	14	14	14	15	14
4. Culture & Housing	5	5	5	6	9	9	9	9	13	11	13	12	13	10	11	13	13	13	14	12
total	27	28	31	34	41	40	40	40	46	43	47	49	54	47	55	57	57	58	64	62
Grand total	107	109	112	131	137	139	144	143	154	153	149	156	162	155	178	171	177	180	196	192

As far the effect of planning in government expenditure is concerned, Pryor indicated that the two are related directly, government expenditure being an instrument commonly applied in the implementation of planning. The real relationship between the two lies in the fact that, planning influences the process of priority setting in the economy and the overall development. Thus, if planning gives priority to the growth of agriculture , industry, etc., the allocation of funds and resources will reflect this. In the experience of Ethiopia, the Government has been setting priorities of this kind in a series of plans under both types of regimes.

Another point where planning can influence government expenditure is, the tendency to incorporate all significant activities within the public sector, which creates significant pressure on government expenditure.

As mentioned in earlier chapters, the allocation procedure and techniques applied do also influence the overall size and structure of government expenditure. The origin of the idea of establishing any ministry or department is not always clear. The advantage or disadvantage of the existence of any institution at a particular period of time is not looked at in terms of budgetary implication until the institution has already been established. It

will be very difficult to give empirical evidence of the magnitude of the contribution of this factor to the growth in government expenditure, because it will mean studying the history of government institutions. However, it can reasnoably be argued that at the EMI and CPA level, financial issues get less importance.

Although the final buget has to be approved by the higher legislative body, the framework of it is formulated at the MOF. If we are to make critical assessment of the system and technique applied at the MOF level, it is necessary to note the following:

1. The basis for allocating funds to any expenditure item of a particular department is narrowly related to the previous year's grant, irrespective of how it has been implemented. This often leads to wrong decision, over or less grant;
2. The objectives and targets i.e, the overall programs of a certain department for a given fiscal year are formulated by each respective ministry, and the MOF doesn't have neither the tradition nor the capacity to review and evaluate them in totality. In other words, there is no technique to weight the importance of two or more depaftments within a ministry and among ministries. What the 'budget committee' does or can do is to grant funds to each in an adhoc fashion.

3. As far as recurrent expenditure is concerned the budget committee are not sure on how much they should offer to each item or department. One criterion for saying whether or not any level of expenditure is large or small is the availability of revenue for allocation. It is common experience at the Budget Department to revise the original allocation for each , after looking at the overall gap between revenue and expenditure proposals.

Our Regression analysis has shown that domestic revenue is a significant variable in determining expenditure. This is true as far as actual revenue and expenditure is concerned. However this factor is not considered at least at the lower level of decision making. Probably the granting of funds to institutions and programs without knowledge of the revenue constraint is one basic reason for the big gap between the original budget and actual implementation. One may argue that whatever allocation has been made is eventually bound to be limited to the available fund. Knowledge of the estimated level of revenue for a coming fiscal year at the time of decision may not then be important. This is true for the overall expenditure. But the allocation of fund among alternative programs will be affected very much. This is proved by the low ratio

of original to actual for capital as compared to recurrent expenditure. What this means is that when actual revenue falls short of the estimated level and/or expenditure items also grow more than the originally allocated, it is capital expenditure that suffers the consequences.

History is full of instances of war causing tremendous growth in government expenditure. The First and Second World Wars' experience of most European countries is a clear example for this. Countries can allocate any level of fund for defence even if the country is not at war. This can probably be justified on the ground that to safe-guard or, as the name indicates , to defend the country from any future enemy or threat requires enough readiness. But a war situation is marginally different from defence in that, war is a decleared or not, hugh military activity (19). War situation can also terminate after certain period while defending the integrity and security of a country is a continuous experience (17).

Even though there may arise a lot of controversy on how to differentiate expenditure for defence and war, it is clear that the two combined claime large resources in Ethiopian History. Ethiopian history , starting from the time of Tewodros upto now is rich in conducting war against foreign

and/or internal opposition by successive governments. In the last three decades, Ethiopia has gone into war against Somalia, for two times. These wars did not pass without scaling up the level of defence expenditure. In addition to this, we can see some parallel between the change of government and large growth in defence expenditure in 1967, and the war situation with Somalia in 1969/70. The internal war in the North of the country has caused a jump in government expenditure in 1974.

Emperical evidence from countries with war experience indicate that no decline was observed in government expenditure after the war is over (19, 17, 32). The question that immediately comes to the mind is what is the case in Ethiopia. One vivid answer will be, government expenditure and specially that of defence has never shown a slight decline. In fact there was a fast growth during the study period. It is possible to argue that, we should not expect government expenditure to show a decline, simply because the war has not come to an end. But as the experience of other countries indicate, it is also possible not to expect a decline in defence expenditure, even if the war comes to an end. One possible reason for this will be the country's defence requirement may continue to demand the existing level of expenditure.

It will be hard to show the effects of technology on government expenditure in this study. However, we can mention some of the ways in which it can affect growth in expenditure. It is possible to give numerous examples as far as this point is concerned. The type of buildings used by the government, the type of equipment used in the construction of roads and houses, equipment used in hospitals, in transport and communication, modern equipment for war, all do influence th cost of supplying goods and services by the government.

No less than the effect of technology, efficiency in the supply of goods and services by the government also play an important role in causing growth in expenditure. Although we cannot formally prove the above case, we can see the same factor claiming a large number of personnel to produce or perform the same function. It should be understood that the introduction of modern working systems that increase efficiency for all government units plays a great role in controlling government expenditure.

Along with this we should consider the expansion of institutions under the public sector. Many small units or departments of the past have now grown to become big

institutions or ministries. Moreover the size of each unit under each ministry has grown tremendously. The number of sub-heads in 1958, for Administrative Services was 58, for Social Services 27 and for Economic Services 22, coming to a total of 107. In 1966, the respective figures reached 68, 46, 40 and 154. In 1977 the figures were 74, 62, 56,192 respectively.

4.2 ANALYSIS OF MAJOR FINDINGS OF THE STUDY

4.2.1 Analysis of the Results

In the preceeding chapter, an effort was made to identify factors that could be responsible for the growth of government expenditure. Using the regression model, statistical results were obtained. This was further supplemented by a consideration of additional factors that were not included in the regression.

It is important to stress at this point the relevance of identifying and relating variables behind the growth and allocation of fund among functional categories. In private sector activity, expenditures(costs) are measured against results. Even in the public sector, it is possible to relate costs and benefits. However, expenditures incurred for running state affairs often do not directly result in

immediate tangible benefits and are hard to evaluate on this basis. The identification of determinants of expenditure is a means of creating an alternative basis for evaluating the behavior of government expenditure. The most common analysis made on government expenditure is to relate it to per capita GNP. So far the experience is that, this factor plays significant role in explaining [illegible]: total government expenditure, recurrent expenditure for Social Services and defence expenditure. Even though it is also significant in relation to recurrent expenditure for Economic Services the slope is very small. Per capita GNP is not at all a significant factor in the total recurrent, capital, Administrative Services, education, health, capital for Economic and Social Services.

Per capita GNP is an important economic variable. But, as we can see from the above cases, the expenditure components failed to show any relationship to it. There are two points that might follow from this. First, that per-papita GNP is not a significant determinant of many components of expenditure may indicate the greater importance of non-economic factors in explaining the components. Secondly, we should note that many authors have been concerned only with total government expenditure, which is an

approach rejected by Musgrave (15), who argues that government expenditure should be divided into its components before it can be explained. The fact that per capita GNP is significant only with respect to few components confirms Musgrave's concern.

With the help of table 11 , we see the "degree of openess" of the economy measured by the ratio of import plus export to GNP(X_3) to be significant in explaining the overall capital expenditure, particularly for Economic Services and also the recurrent expenditure plus capital for Social((equation X_{13}). As a whole, however, it is a weak variable in the model.

The dummy variable for the change of government is an important explanatory factor in all components except total expenditure and capital. There is not any significnat difference in the ratio of capital expenditure to GNP before and after the change of government. There is however significant change in the ratio of recurrent expenditure to GNP after the change of government despite the declining share of recurrent in the total.

In many studies, the ratio of total government expenditure to GNP, has been used as an explanatory variable in expenditure components. The exercise helps to show how each expenditure component behaves against total expenditure. It is clear this variable is a significant influence in individual components in the Ethiopian case. However total expenditure is financed by domestic revenue and/or external loan and domestic borrowing. In the Ethiopian case, we are interested more in its financing, i.e, how each expenditure component is related to domestic revenue and borrowing and loan, because, it will be essential for policy decisions.

Domestic revenue appear as a significant variable in all but two of the 13 equations. The equation for the ratio of defence expenditure and recurrent expenditure for Economic Services are the exceptions. The reason behind the exceptions might be that the growth in defence expenditure was so large that the ratio of domestic revenue did not result in an increase in recurrent expenditure for Economic Services.

Financing expenditure through domestic revenue is complimented by loan and domestic borrowing. The fact that this variable is significant in many equations supports Burkead(2), who suggested that loan should be used as

an explanatory variable in the analysis of government expenditure. However, even though the variable of loan-borrowing is significant its coefficients are very small. Keeping this in mind, if we try to relate this to the ratio of actual performance of loan and borrowing to the revised budget, the ratio is 52.5 % . At the early stages of decision making, the large gap between domestic revenue and total government expenditure is expected to be covered by the use of loan and deficit financing. However, the result is not as expected. Due to delays in obtaining the amount of loans and at the same time lack of adequate preparation in project plan and implementation, actual capital expenditure is very low.

Another variable suggested by some and also included in our equation is the proxy for literacy, i.e, the ratio of government expenditure allocated for education to total expenditure. We observe two significant points here:

1. Unlike results from other studies, this variable is significant in all equations except in health;
2. In some of the results obtained, the relevant coefficient has a negative sign. If we go back and look at the ratio of the variable, we see that it is almost constant thoughout the study period, while the ratio of dependent variables shows some growth. That can

possibly be a result of the "displacement effect", i.e, that as ratio of expenditure for other sectors increases, no increment is expected in the ratio of education. All in all the coefficient of determination (R^2) is very large for all the equations.

Even though descriptive analysis of government expenditure may not be free of controversy and criticism, it is the belief of the present study, that it will serve an equal purpose as the analytical statistical exercise. At this point we need to see the theoretical behavior of government expenditure in the Ethiopian situation. According to Burkhead (2, p.27), some of the fundamental characteristics of government expenditure are:

1. For a variety of reasons, the government finds it difficult to reduce the size of its employees;
2. It is believed that the provision of goods and services by the government is intended to satisfy the interest of its consumers. However, when government program decisions are shaped and structured not only the wants of the consumers of government goods and services but also by the wants of the decision makers;
3. Although government expenditure is an economic variable, it is the result of a political decision. Thus, unlike the private sector, economic efficiency may be sacrificed in its determination.

4. Government expenditure is governedby the peculiarity of public goods, the provision of which it finances. In the market, intensity of demand is reflected in the price, which is not the case in the provision of public goods.

5. Finally, government programsare marked by an elementt of coercion, which is absent in the private sector. In the market no one is required to buy any specified quantity of goods and services. However, after a government program has been proposed, reviewed and adopted, taxes have to be levied for its support, at some point or other.

A look at the difference between recurrent and capital costs sheds some additional light on the overall behavior of government expenditure. " Recurrent costs are those associated with the operation or maintenance of facilities or assets. Typically, it includes the costs of salaries, wages; equipment maintenance and spare parts, supplies, utilities, personel-on-job-training. " (44, p. 16). On the other hand " Capital costs are those costs concentrated at the begining of a project and associated with the establishment of productive capacity and physical infra-structure. These include the costs of installation of plants and equipment ; construction of buildings; purchase of vechicles; intial investment in human capital."(44,p.16)

In practice, there are often considerable difficulties in distinguishing between capital and recurrent expenditure. In most cases, time seems to be the most important factor of distinction between them. Capital cost most often occur at intervals greater than one year and their accrue over longer period, while recurrent cost occur more frequently, yielding immediate consumption benefits.

4.2.2 Government Expenditure and Economic Development

Government budget, which is a reflection of the existing economic, political and social conditions of a nation, is also an instrument in shaping them. Governments like to spend more money, citizens do not like to pay more taxes. It is fundamental to realize in the study of government expenditure that, decisions about public expenditure are taken politically. That political decision is however influenced by economic , social and cultural factors at a particular period of a country.

At this point we need to relate the theoretical assessement of the role of government budget specially expenditure to development objectives in Ethiopia. This indeed is the basic problem the present study wants to address.

Ethiopia is one of the least developed countries. We also know that the country has been making various efforts to alleviate the problems associated with backwordness. Although some of these problems have been mitigated it is still in the middle of a survival struggle. At a time where famine is hoxering over a vast expanse of the country we need to pause for a while and make an inquiry into the past and the future.

Even though the study on famine by many has not reached a point where the final word has been said, it has contributed a lot to explain factors behind famine.

As the results of the studies made indicate, the issue of famine is more fundamental than has been earlier thought by many. Thus, it requires a fundamental solution. It is not because the present study is prepared to discuss the issue in detail, but to indicate that no development can be envisaged without attaking famine in a fundamental sense. Inquiry into the basic and fundamental causes of famine and underdevelopment is essential inorder to provide solution. There is no doubt, the issue is surrounded by controversy and there is no basic study made so far as to the causes of underdvelopment in Ethiopia. We can safely say that capital accumulation is one of the main causes and results of underdevelopment. The absence of

capital for investment lies at the root of the country's development problem. This is a result of the low level of private and government saving. Thus inorder to enhance investment, government saving should be boosted. Government saving is in general, the difference between domestic revenue and recurrent expenditure.

In the promotion of development, the private sector and public sectors have their respective role to play. As we have already indicated several times, the possibility of using the private sector in this respect is limited. The Government on the other hand, directly and indirectly is in a much better possition to shoulder the responsibility.

The present study reveals the experience of the country in its allocation of fund, its use of deficit financing and the revenue side. More than any other instrument, government expenditure seems to be the best available at the disposal of the Government. The overall situation in the developing countries, the socialist orientation of the Government, combined together, give sufficient justification for the Government to act to fulfil the task.

As we know it, fiscal policy is the concious regulation of the economy of a country by the government and budgeting is the art of reconciling revenue and expenditure. However

the collection of tax or allocation of expenditure for running state affairs or for non-economic purposes is outside fiscal policy. It is hard therefore to relate Ethiopia's budget with fiscal policy. But one thing is clear. The Government is involved in investment for social and economic development. Moreover, the collection of tax from the private and public sector will have an effect on the economy. The Government's continuous resort to deficit financing can be one factor for causing inflation, which will have an effect on the national economy.

All in all our present concern is how can the Government increase its saving? This is possible by increasing tax as is always suggested, and/or reducing concumption (recurrent expenditure). The importance of the present study should be viewed on the basis of this idea. As Teame(21) has pointed out in his study on taxation in Ethiopia, much is to be desired in increasing taxation.

On the other hand, on the basis of our present study, the experience of Ethiopia reveals that, there is always the tendency for consumption to take the greater share. In fact recurrent expenditure consumes almost greater than domestic revenue. Gowernment capital investment is financed through foreign loans and domestic borrowing. Thus to depend fully on foreign loan, given the problems associated with it, and deficit financing for promoting

investment by the Government becomes critical. Therefore, even though increasing taxation can be supported, that increment should be related and geared to increasing saving and investment. Equally as the Ten-Year-Perspective-Plan (TYPP) has pointed out, much can be expected from the re-current expenditure. This can be achieved on a number of alternatives. It can be achieved by: a) reducing the present level of recurrent expenditure, more prefereably on gradual basis; b) by keeping it at its present level; and c) by reducing its growth rate. Choosing any one alternative would require assessment of many factors. But what we should understand is that, curbing the expan-sion of the bureaucracy should be the beginning for applying any alternative. Efficiency measures should be introduced in the public sector. This is true not only for recurrent expenditure but as well for the overall public sector spending.

The present study deeply recogniwes the need to relate taxes and expenditure. We have seen that domestic revenue is less than the fund required for recurrent. It should be clear that tax collected from the poor peasant, making struggle for survival from famine, and tax and profit from the public enterprises is being used to finance recurrent activities. One cannot say that there are other sources for running recurrent activities, or that these sources

should not be used all. The following example or explanation could be important in making the point clear. Public enterprises pay 50 % of their gross profit as tax. Moreover, the remaining portion also is submitted to the Central Treasury in the form of residual surplus. This financial practice should be reviewed and be concerned more on how the enterprises can best be expanded and become strong. Another example which can be mentioned is the collection of tax from agriculture which requires much attention. If the final objective of the Government is to improve the living condition of the peasant society, no effort of the Government could be as great as allowing the peasant to solve his own problem by himself. Specially given the pattern of expenditure in the past, the allocation procedure and problems associated with it, pulling resources to the center could be counter productive.

V. CONCLUSION

Capital accumulation is one of the main macro-economic problems facing Ethiopia at present. As a result, the country is in a vicious circle of poverty. Any effort in the future should address this problem adequately. The private and public sectors and/or internal and external resources can be mobilized to increase investment. Since the present study is limited to the Central Government budget, recommendations and conclusions given are related to it.

Basically, the means to increase investment is by increasing government and private saving. Government saving is the difference between domestic revenue and recurrent expenditure. In other words resources that are produced over a year but not consumed and ready to be invested are taken as saving for that particular year.

On the basis of the present study, we have seen that the level of total government expenditure has been growing tremendously. Specially, government expenditure for recurrent, and particularly that of administrative services has been claiming a significant portion of government budget. The share of government expenditure in GNP has also been growing fastly. Upto 1966 its share was less than 15 %,

comparable to many developing countries. But in 1977, the figure has reached upto 44 %. It has been indicated in the study that, percapita GNP appeared to be weak determinant of expenditure. As can be recalled and also to be expected, expenditure for recurrent and administration has been influenced more by non-economic factors. It has also been pointed out that government expenditure has been influenced by planning, allocation technique and procdure, war and drought, inefficiency and the introduction of modern technology.

In Ethiopia, the level of recurrent expenditure is greater than the available domestic revenue, leading to deficit financing. There is no argument as to the strong desire of the governments to reduce the level of deficit. This desire can be fulfilled in a number of ways, some of which could be:

i. <u>to increase tax</u>

Tax revenue can be increased by either increasing rates and/or by introducing new taxes and improve the existing system. However, the above statements presupposes the existence of potential tax that has not yet been tapped and also the existence of some kind of inefficiency in the tax collection system.

ii. to reduce or control expenditure

As far as government expenditure is concerned a number of proposals can be forwarded. In the first place we can suggest to reduce the overall budget by the amount of the deficit. This is not a move towords a balanced budget on annual basis. However, the budget should somehow move towords balance over a period of long time, say five to ten years. The question that is hard to answer is from which expenditure categories to cut. There exists no guideline to do this.

Despite such kind of problem, we cannot also propose to cut all expenditures across the board, regardless of type of program. Thus we can make selective cuts. At the early stages of development for instance, since expenditure for education and health are considered to be important, greater investment on them is essential.

Reducing government expenditure may be difficult in the short run. If such measure is difficult politically, another better step is to control or arrest its growth. Stringent methods should be used to add up to the existing level of expenditure. This can also be made on selective basis. The government should reduce its investment on areas where the private sector can do better. If the possibility to

privatize public enterprises is not there in the near future they can be made to operate on self-finance. This will reduce the burden of the government budget of its demand for investment fund. Therefore , the proclamation that allowed the formation of these public enterprised should be reviewed and revised.

As far as controlling or reducing recurrent expenditure is concerned, we need to include the case of defence expenditure. Defence is claiming a significant portion of the national budget. Our empirical study indicates that defence and war expenditure are growing at a fast rate and deficit financing has been used to finance it. We can not say deficit financing has been used only for investment since high proportion of capital has been financed by loan and also that domestic revenue is less than recurrent. This indicates that deficit financing has been uded to finance consumption. Allocation for defence and war are decided on political and military grounds. However, if that decision fails to accomedate economic and financial considerations, it is hard to expect for the level of deficit to decline, and at the same time we should expect adverse economic situation as a result of it.

Basically increasing taxation and reducing expenditure are the main means to narrow down the level of deficit. However, these two options are difficult to implement specially in the political sense. Thus the Government prefers to use deficit financing instead of increasing tax and reducing expenditure. Currently there is a legal limitation for the amount of deficit the Government can use. This legal foundation is specified in the Special Decree N°3, N° 4/1988 (G.C). According to this decree, there are:

a) Direct advances

for the purpose of overcoming fluctuation in the ordinary revenue of the Government the Bank may make direct advances to the Government, provided that the total of the outstanding direct advances to the Government shall not exceed at any time 70 % of the actual ordinary revenue collected during the previous fiscal year of the Government;

b) Treasury Bill

at no time shall the amount of Treasury Bills purchased and held as security by the Bank and those pruchased by banks and other financial institutions exceed 25 % of the actual ordinary revenue collected during the previous fiscal year of the Government;

c) Government Bonds

The Bank may purchase Government Bonds with maturities of not more than 10 years from the date of issuance. At no time shall the total amount of such bonds held by the Bank exceed 55 % of the actual ordinary revenue collected during the previous year of the government.

The Government should realize the fact that, deficit financing can be useful only for short term adjustment in the fluctuation of revenue and not a significant and permanent source of finance. In our analysis of the determinants of government expenditure, we saw factors that were included in the regression model and also some additional factors. If we revisit some of these factors. we may probably come out with some recommendations for improvement.

Among the additional fators we considered to have influence on the growth of government expenditure were, expansion of institutions, inefficiency in production and consumption of public goods and services, fund allocation technique and procedure, war and drought.

Institutions are vechicles to implement the program of the government. They play important role in promoting development in interpreting government intentions and plans. We have seen the role and function of the Ethiopian Management Institute (EMI) and Central Personnel Agency (CPA). Expansion or consolidation of institutions should reflect the level of economic development of a country. Ministries, agencies and other institutions should not be established without due consideration for their financial implications.

A second factor we should consider will be inefficiency in production and consumption of public goods and services. Efficiency on the supply and demand of government budget will enable to increase tax and reduce expenditure. Efficiency is in general getting more benefit for less cost. The application of the concept of efficiency is important in all fields, in servicing giving of education and health or in overall administration and in conducting war. Lack of efficiency contributes to the growth of government expenditure.

However, the problem one encounters is how do we measure efficiency in the public sector. Another hard fact is there is no incentive in the public sector for reducing cost. As a result we need to apply the concepts of public

finance to separate what should be considered public goods. Even if services have to be provided by the government, say like education and health, proper pricing policy should be applied to recover costs. This measure has been important in introducing efficiency of consumption in the public social services.

Another method to improve efficiency is to improve the techniques and methods of budget allocation. The current system of budget allocation requires improvement. In the past, more emphasis was made on the details, with less attention to the aggregate. Even though types of budgeting like Zero-Base-Budgeting and Programming,Planning, Budgeting require huge volume of information and take a long process to make decisions, gradual move towords them should be initiated. This has to be worked out in line with the overall fiscal activity of the Government.

Finally, it has to be recognized well that there are factors like war and drought, that contribute to the growth of government expenditure, which the Governmenttdoesn't have direct or easy means to control at least in the short-rum. Aggression by foreign power or internal unstability are uncalled of disturbing factors. However, we are sure

that they require and compete for resources that can be used for development. The recurrence of drought for a long time has claimed a lot of human and material resources. Famine and drought have double edged effect on the budget. On the one hand they reduce the volume of revenue the Government can collect and at the same time the Government has to increase its allocation for alleviating its effect. Continuous and concerted effort is required to combat its effect and achieve meaningful result.

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DECLARATION

I, the undersigned, declare that this thesis is my work and that all sources of material used for the thesis have been dully acknowledged,

Name [illegible]

Signature [illegible]