The Missing Counterfactual of African State Formation

A Comparative Review of Ethiopia's Fiscal Institutions under Emperor Haile Selassie (1941-1974)

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1. Introduction: State formation in Africa and the case of Ethiopia

In this thesis I present an analysis of the state formation process of modern Ethiopia. The research is focussed on the fiscal developments of the post-liberation Ethiopian state under the rule of emperor Haile Selassie, between 1941 and 1974. The analysis serves to create new insights into the fiscal centralisation of the Ethiopian state, as well as a better understanding of the mechanisms of colonial rule in Africa.

Studying the functioning of states has great value for a variety of societal issues. In today's world, almost the entire globe is ruled by nation-states (Wimmer & Min, 2006). Through direct or indirect influence, states are involved in all aspects of everyday lives: they redistribute resources through the levying of taxes and the provisions of public goods and services; they impose law and order through the enactment of a monopoly on the legitimate use of violence; they shape the international political order through their (armed) participation in world politics (Young, 1994). States thus have an impact on everything in our daily lives ranging from our political rights to our job opportunities. Understanding how states function can help to improve them, which can in turn improve the daily lives of people. To understand how states function, it is essential to review how they came to be and how they have developed over time. Studying processes of state formation thus serves to create a better understanding of the functioning of states. Particular attention in this field of study has been given to states in sub-Saharan Africa. Compared to other regions of the world, sub-Saharan Africa is ranked lowest based on many governance indicators (such as government effectiveness, rule of law and control of corruption) as formulated by the World Bank (The World Bank, 2017). Aside from these factors directly related to the way states functions, many states still struggle in dealing with issues that they are expected to resolve. In key areas such as healthcare, education and economic growth, many African states still face huge challenges, as indicated by bottom rankings on development indicators such as infant mortality, life expectancy, GDP per capita and adult literacy (The World Bank, 2013). Although it should be stressed that these factors cannot be directly attributed to a state's performance, states could play a major role in their improvement.

1.1. Colonial intervention and the missing counterfactual

Out of all the factors that played a role in the development of African states, the impact of colonialism is possibly the most debated. Within the literature reviewing the impact of colonisation on African states, authors such as Young (1994) and Mamdani (1996) have highlighted the absolutist forms of control exercised by colonial governments and the high level of resource extraction that came with it. As opposed to this 'extractive' view, that assumes colonial states had effective structures in place to extract large amount of resources, there is also a substantive work of literature that points to the minimalist nature of many African colonial states. Frankema (e.g. 2010, 2011) argues that fiscal revenues of colonial states in Africa generally remained low, because metropolitan powers were not willing to make the necessary investments to build effective fiscal systems. "The principle problem of colonial governments was the same everywhere. All metropolitan powers were reluctant to place much of the financial burden of imperial expansion on the backs of metropolitan tax-payers." (Frankema & Booth, 2019, p.2). As imperial powers were mainly driven by strategic rather than economic motives, Gardner (2012), like Frankema, argues that colonial regimes were guided by the principle of self-sufficiency. Without investments in areas such as military, infrastructure and public administration, raising large amounts of revenue became very difficult. The minimalist perspective therefore points to the lack of investments, rather than to extreme exploitation, as the most important factor that has impeded long term growth in colonial Africa.

Colonialism, whether viewed from an extractive or minimalist view, is thus widely considered to have greatly affected the development of African states. However, to be able to understand how colonialism impacted African state formation, it is essential to understand the broader context in which it took place. Herbst (2000), who also adheres to the minimalist perspective on colonial rule, points out that there are larger aspects inherent to African rule that have played a role in pre-colonial Africa as well as colonial Africa, and continue to retain progress in Africa to this day. In his book 'States and Power in Africa' (2000) he argues that the biggest challenge to African state formation has been how to extend political authority over sparsely settled land. He shows how the concept of nation-states with clearly defined territorial borders was at odds with how African territories were traditionally ruled and questions the viability of nation-states as the sole form of governance in Africa.

In the review of the impact of colonial rule, as well as in the review of the challenge of extending political authority in Africa, one factor is at the centre of discussion: the development of fiscal state capacity. Frankema (2011) explains this development as a challenge that practically every state has to deal with: to be able to exert authority over a territory, a state needs to extract resources from its population (e.g. raising taxes), but in order to extract those resources the state needs administrative strength and legitimacy. From the extractive view, colonial fiscal policies are characterised by their aim to maximise revenues. Within the minimalist view, the colonial fiscal policies are aimed at being self-sufficient: African colonial governments were to become financially independent from the metropoles as soon as possible. And in the challenge of extending political authority over sparsely settled land, as explained by Herbst (2000), the key issue is that the marginal costs of raising revenue become too high as people live further away from the capital. Fiscal state capacity thus always plays a central role. This research will therefore take the development of fiscal state capacity in Africa as a focus in reviewing how colonial rule has impacted African state formation. The question remains, how can this research address the impact of colonialism on the path of fiscal state formation in Africa? The theoretical difficulty in establishing how African states were influenced by colonialism, is that there is no counterfactual: "how a society would have fared without colonial intervention remains unobserved." (Frankema & Waijenburg, 2014, p. 372). There is however one state in Africa that may offer an interesting comparison, as it has managed to remain independent of colonial rule: Ethiopia.

Ethiopia has the longest state history in sub-Saharan Africa and is the only indigenous state in Africa that was never colonised (e.g. Rubenson, 1976, Tsegaye[1], 1996, Bahru, 2002).[2] Its history can be traced back around 2000 thousand years to the kingdom of Aksum, in which the office of the emperor and the Ethiopian Orthodox Church took shape. It has incorporated different areas and ethnic groups over time. When speaking of the modern Ethiopian state, there seems to be consensus among scholars of Ethiopian history that its foundation was laid by emperor Tewodros, who was coronated in 1855 (e.g. Clapham, 1969; Tsegaye, 1996; Bahru, 2002). Just a few decades later, the 'the scramble for Africa' took place and the process of colonising the African continent had begun. As mentioned, Ethiopia was the only state that remained independent throughout this process. It successfully fought off an Italian invasion in 1896, under the leadership of emperor Menelik. Through the process of fighting off

[1] As is common in Ethiopian literature due to the system of names and surnames in Ethiopia (where the surname refers to one's father), Ethiopian scholars are referred to by their first names throughout this thesis.

[2] The other state in Africa that is generally considered never to have been colonized is Liberia, where independence was declared as early as 1847. However, the state of Liberia was founded by free African Americans, and as such does not offer insights into how native African states may have developed without colonial intervention.

invaders and negotiating Ethiopia's outer borders with colonial powers, Ethiopia's territory was established and for the largest part has remained as such ever since. It has been occupied by Italy, between 1936 and 1941, but this period is not considered long enough to have had a decisive impact on Ethiopia's state formation and as such is not viewed as 'colonisation' (e.g. Rubenson, 1976; Bahru, 2002). While Tewodros started the unification of the Ethiopian empire and Menelik finalised the process, literature points to the rule of emperor Haile Selassie (1930-1974) as the phase where the process of state centralisation accelerated (e.g. Clapham, 1969; Tsegaye, 1996; Young; 1996). During his regime, the emperor managed to create an image, inside Ethiopia as well as internationally, of a ruler that stood for sovereign African rule and fought for the development of his country (Keller & Smith, 2005). Haile Selassie was viewed as both a moderniser and an autocrat, but more important concerning the purpose of this research: he was the only independent ruler in colonial Africa and managed to stay in power for almost forty years.

As such, Haile Selassie's rule offers a counterfactual to colonial rule and the impact it had on fiscal state formation in Africa. To investigate this impact, this study aims to answer the question: *how effective were the fiscal institutions of the central Ethiopian state, in comparison to African colonial states?* In this question, 'effectiveness of fiscal institutions' refers to two specific elements that are considered to have fallen short under colonial rule. First, it refers to the ability of states to raise revenue. As stated, fiscal capacity is essential to any state formation process and was considered to be weak under African colonial rule, by scholars adhering to the minimalist perspective. Second, 'effectiveness of fiscal institutions' in this study also refers to the extent to which expenditures were aimed at improving the welfare of the native population. This aspect follows from the reproach that colonial governments spent little of the revenue that they raised from the African colonies to benefit their populations. Instead, much of the resources extracted were spent on the costs of the colonial governments themselves (e.g. Frankema, 2011; Huillery, 2013). For both elements, a comparison is made between the central Ethiopian state and African colonial states.

Of course, the Ethiopian state has a unique context and history of its own, and conclusions on its fiscal developments cannot easily be generalised to the African continent as whole. The state's history and its unique characteristics might in fact be part of the explanation why it succeeded to remain independent. In the comparison to the fiscal developments of African colonial states, one aspect in particular must be considered: the existence of a feudal state system. Ethiopia had a feudal system of control which had developed over the centuries preceding Haile Selassie's rule (Tsegaye, 1996). This unique state feature may have had a significant impact on the development of Ethiopia's fiscal institutions, irrespective of its independence. Therefore, to analyse which aspects of Ethiopia's fiscal development should be attributed to what, the second main question is: *what role did (i) the existence of a feudal state system and (ii) independence from colonial rule, play in the development of fiscal institutions of the central Ethiopian state?* The question aims to address the context in which Ethiopia's state formation process took place, in order to asses which aspects of Ethiopia's fiscal institutions are unique to its state and which aspects may have occurred in other African states as well, had they remained independent.

This study serves two interrelated purposes. First, it intends to test existing notions on fiscal developments under colonial rule by presenting a counterfactual. So far, many researchers have analysed the fiscal developments of African states and the role that colonial intervention played in them (e.g. Herbst, 2000; Frankema, 2010, 2011; Gardner, 2012; Cogneau, Dupraz, & Mesplé-Somps, 2016). However, to compare the fiscal performance of African colonial states to the fiscal developments of the one African state that was never colonised, is a new approach. It allows for reflection on the discussion of which elements of colonial rule should be attributed to colonial intervention itself, and which elements should be attributed to more general challenges of exercising power in sub-Saharan Africa.

Second, by placing Ethiopia's central revenues in comparative perspective, this study also aims to test to what extent the Haile Selassie government was successful in centralising the state. A lot has been written about the Haile Selassie government and the influence of the emperor himself (e.g. Clapham, 1969; Del Boca, 1985; Bahru, 2002). In addition, there also exists literature discussing the policies and laws that contributed to the centralisation of power under Haile Selassie (e.g. Markakis & Asmelash, 1967; Young; 1996), including studies of fiscal centralisation (Pankhurst, 1967, 1968; Bahru, 1984; Eshetu, 1984). However, to the best of my knowledge, no research has been done which tests the effectiveness of fiscal centralisation.[3] Eshetu (1984) and Pankhurst (1967, 1968) recognize the limited effectiveness of much of the fiscal legislation proclaimed by the Haile Selassie government. However, they do not provide any frame of reference to put the revenue raised into perspective, either by comparing central revenue to revenue raised through the traditional system, or, as this study attempts, by comparing central revenue relative to GDP, to that of African colonial states. As such, this is the first study that provides empirical comparative evidence of the effectiveness of fiscal centralisation under the Haile Selassie government.

1.2 Methodology and sources

To address the first research question – how effective Ethiopia's fiscal state institutions were in comparison to those of African colonial states – two working hypotheses are formulated. First, I hypothesize that the central Ethiopian state had greater fiscal capacity than African colonial states. This hypothesis is based on the possibility of the Ethiopian central state to rely on an existing (feudal) fiscal system, which literature suggests was centralised under the rule of Haile Selassie (Markakis & Asmelash, 1967; Eshetu, 1984; Bahru, 1984; Tsegaye, 1996; Young, 1996; Clapham, 1969). This hypothesis is tested by comparing Ethiopia's fiscal capacity to that of twenty-two colonial states from across sub-Saharan Africa. Fiscal capacity (FC) is expressed as Fiscal Revenue (FR) per capita as a percentage of Gross Domestic Product (GDP) per capita, which indicates how much revenue a state is able to raise from the total resources available in the economy (and thus measures its fiscal capacity). A more specific description of this method is provided in Chapter 3.

Second, I hypothesize that the central Ethiopian state allocated a larger share of its resources towards improving the welfare of its population. This hypothesis is based on the expectation that accountable government developed under the Haile Selassie government, as a concession towards the feudal nobility for centralizing fiscal capacity. Accountable government in turn will have led to higher investments in the welfare of the population than African colonial states were willing to make, as accountable government never developed under colonial rule (Frankema & Booth, 2019). This hypothesis is tested by comparing the shares of healthcare and education in the Ethiopian central

[3] There is a limited amount of literature on the fiscal developments of post-liberation Ethiopia. Mascagni (2016) offers some analysis in the context of the development of aid dependence in Ethiopia. However, he takes the period under Haile Selassie as a starting point and as such does not analyse how the state formation process that preceded it, in part determined the fiscal developments after 1941. Wogene (1994) similarly offers an analysis of post-liberation fiscal developments, which mainly covers the period 1950-1990. He analyses the fiscal developments in relation to development of the economy, without considering the broader context of state formation and with limited separation of the period before and after Haile Selassie's removal in 1974.

expenditure, to those same shares in African colonial expenditure. More explanation is provided in Chapter 3.

To address the second research question - what role (i) the existence of a feudal state system and (ii) independence from colonial rule, played in the development of fiscal institutions of the central Ethiopian state- the results of this study are compared to the existing literature on fiscal state formation in colonial Africa, as well as the literature on fiscal centralisation in Ethiopia.

This methodology constitutes a mixed methods approach, relying on both qualitative and quantitative analysis, using data from both primary and secondary sources. Most of the data analysed in this research has been collected from libraries and archives in Addis Ababa, Ethiopia. The Addis Ababa University granted access to the Institute of Ethiopian Studies and to the John F. Kennedy Memorial Library, both of which held a wide collection of literature on the history of the Ethiopian state, as well documents published by the Ethiopian state under the rule of emperor Haile Selassie. In addition, quantitative data has been collected from the archives of the Ethiopian Ministry of Finance and Economic Development and from the Central Statistical Agency, which is part of this ministry. A list of sources categorised under the institutions where they were found is provided at the end of this document. Within the archival data that has been collected, we can broadly distinguish two types of sources: literature on the development of the Ethiopian state (some of which is not available elsewhere) and statistical records, containing mostly data on public revenue and expenditure.

The primary source of data central to the quantitative analysis in this study, is a record of public revenue and expenditure of the Ethiopian Government, of the years 1950-1992.[4] For this research, the data until the year 1974 is reviewed, as the Ethiopian year ended on the 7th of July 1974 (Negarit Gazeta, 1995), right before the overthrow of the Haile Selassie Government on September 12th of that year. The data in this source was computed by the Planning & Research Department of the Ethiopian Ministry of Finance in 1995 and collected from the archives of the Ministry of Finance and Economic Development in Addis Ababa. The data was compared at random with the records produced by the Ministry of Finance of the Imperial Ethiopian Government, gathered from the same archives. Since no discrepancies were found between the 1995 document and the yearly records of the Imperial government, it can be assumed that the data was originally collected by the Imperial government (rather than being estimates of the 1995 government).

In the comparison of Ethiopia to other states, five benchmark years were selected. The first benchmark year is 1950, the first year for which data is available on actual revenue and expenditure as well as data on GDP per capita. The second benchmark is 1957, the last year before the first five-year plan of Haile Selassie's government was implemented (originally planned to start in 1957, but postponed by a year), in which large scale economic reforms were attempted (Shiferaw, 1992). 1962 is used as it is the last year of the first five-year plan. 1968 forms the fourth benchmark year, as it falls in between the second (1963-1967) and the third (1969-1974) five-year plan and follows the introduction of the agricultural income tax of 1967 (Eshetu, 1984). The last benchmark year is 1974, which is the last year under review and the last year of the third five-year Plan, which was extended from its original end date of 1973 by a year, because implementation had fallen short (Shiferaw, 1992).

[4] The fiscal year in Ethiopia ran from September to September on the Gregorian calendar, in the years up until 1959. From 1959 onwards, all fiscal years ended on the 7th of July on the Gregorian calendar. When referring to and comparing the fiscal years, the second year on the Gregorian calendar will be used, in line with Ethiopian statistics as reported by Mitchell (1998), of whom data on other African states is used for comparison. The year 1950 for other African states is thus compared to the Ethiopian year 1949/1950.

Based on the results of this study, I present the main argument that existing literature on the formation of the modern Ethiopian state, has overstated the centralisation of power that took place under the rule of emperor Haile Selassie. A comparative analysis of Ethiopia's fiscal capacity reveals that the central state was relatively unsuccessful in raising revenue, suggesting that much of the traditional system of resource extraction was still in place under Haile Selassie's regime, despite all formal power being centralised through legislation and the instalment of a modern state bureaucracy. The fact that African colonial states were generally better at subjugating traditional systems of resource extraction to their will, suggests that the existence of a credible threat of military violence, employed against the native population, should not be underestimated as a key element in centralising fiscal capacity under colonial rule.

2. Conceptual framework

To compare the fiscal institutions of the central Ethiopian state to those of African colonial states, it is useful to discuss some key concepts related to fiscal state formation and how they have been studied so far. This chapter first discusses literature on state formation in Europe, to understand how warfare contributed to the growth and consolidation of nation states, and under which circumstances fiscal centralisation took place. In the second section, the developments in Europe are compared to those of the modern Ethiopian empire, where warfare similarly triggered a process of centralisation in a feudal society. In order to compare the fiscal developments in Ethiopia to those of African colonial states, the third section discusses how colonial states attempted to raise revenue and how they redistributed that revenue towards different purposes.

2.1 The formation of nation states and fiscal capacity in Europe

When discussing patterns of state formation, it is useful to start at the beginning: how do states come into existence? Carneiro (1970) distinguishes two general types of theories on the origins of the state: voluntaristic and coercive theories. He suggests that "A close examination of history indicates that only a coercive theory can account for the rise of the state." (Carneiro, 1970, p. 435). Carneiro describes a set of circumstances that were conditional to the formation of states. Under all these circumstances, warfare formed the key mechanism of state formation. Violent struggles lead to the domination of one group of people over others, who were subsequently forced to give up part of their resources (e.g. labour, food) to their conquerors. Carneiro (1970) analyses the earliest forms of states and how they emerged, but the mechanisms of warfare similarly forged states in more recent history.

Tilly (1985) argues that organised violence was at the core of the formation of modern nation states in Europe. He defines nation states as "*relatively centralized, differentiated organizations the officials of which more or less successfully claim control over the chief concentrated means of violence within a population inhabiting a large, contiguous territory."* (Tilly, 1985, p.170). He distinguishes four organised means of violence that were carried out by the agents of state in the process of nation state formation in Europe: war making, state making, protection and extraction. War making and state making refer to the eliminating or neutralising of the rivals of the agents of state, respectively outside and inside the territories in which they have a clear and continuous priority as wielders of force. Protection refers to the eliminating or neutralising of the enemies of their clients and extraction is the mechanism of acquiring the means to carry out the first three activities (i.e. raising revenue).

So why did these activities lead to the growth and consolidation of states? There are two important concepts that help understand this process, for both 16th and 17th century Europe and for

19th and 20th century Ethiopia: the displacement effect and the development of nationalism. First, wars create a good opportunity for rulers to increase their revenue. Herbst (1990) explains how this happens in two interconnected ways: first, by putting significant pressure on leaders to find new sources of income and maximise their revenue and, second, by putting any concerns citizens might normally have when taxes are raised to the background through the threat of their survival. After the war, the tax levels usually don not return to their former levels but remain high, because the investments in the administrative capacity to raise revenue have been made and the marginal costs of continuing on the same path are relatively low. The additional revenue can consequently be used to strengthen the position of the ruling group (Herbst, 1990). This effect is referred to as a 'displacement effect' or a 'ratchet effect' (Tilly, 1985). Tilly adds to this that the organizational residue was largest when activities were the costliest. This also entailed that in societies in which resources were most difficult to extract, the state ended up with the most extensive fiscal apparatus (assuming the state survived). The displacement effect in some cases lead to governments acting as 'racketeers': "someone who creates a threat and then charges for its reduction." (Tilly, 1985, p. 171). Governments can be considered racketeers when they either create a large threat to the livelihoods of their population themselves (for instance through extreme resource extraction) or when they convince their population of an imaginary threat.

Whether real or imaginary, external threats can thus be used as a legitimising factor for many state activities. Herbst (1990) relates this mechanism to nationalism, explaining that external threats create a realisation among people that they are being threatened for who they are as a nation, and that they can most likely only defeat this threat as a nation. He states that *"Fighting wars may be the only way whereby it is possible to have people pay more taxes and at the same time feel more closely associated with the state."* (Herbst, 1990, p. 122). He argues that the development of nationalism is the second crucial development in the relation between war and state formation in Europe (in addition to the creation of centralised states and efficient structures to collect taxes).

The developments described above imply that states needed three things. In order to eliminate enemies of their state, they needed military capacity. In order to finance their activities, they needed fiscal capacity. And in order to systemize revenue collection, they needed bureaucratic capacity (which as explained often developed when pressure to increase revenue streams occurred). These three capacities can be considered as the core components of nation state formation. Key to the creation of nation states in Europe, was not just that these capacities developed, but that they were centralised. Feudal lords gave up much of their state capacity to a central state. Why did they do that? Military, the effects of external threats, as explained by Tilly (1985) and Herbst (1990), formed a logical incentive to bundle forces in the form of a centralised army. The creation of a central administration was often a form of 'organisational residue' of the increase of other capacities (Tilly, 1985). The question that then remains, is why feudal lords were willing to also transfer fiscal capacity, the enabler of all activities, to the central state?

Dincecco (2009) provides an analysis of how and why feudal lords in Europe gradually gave up power to the central state, which together with the coercive process described by Tilly (1985) and Herbst (1990), creates a more complete understanding of the driving forces behind fiscal centralisation. Dincecco (2009) reviews the growth of fiscal state capacity in Europe between 1650 and 1913, using four public finance characteristics of political regimes:

TABLE 3
PUBLIC FINANCE CHARACTERISTICS OF POLITICAL REGIMES

Regime	Per Capita Public Revenues
Fragmented and absolutist	Low due to local free riding and lack of credible commitment
Centralized and absolutist	Increase due to resolution of free riding but still no credible commitment
Fragmented and limited	Increase due to credible commitment but still local free riding
Centralized and limited	High due to resolution of local free riding and credible commitment

Sources: See the text.

Dincecco, 2009, p.59

The order of revenue raising ability per type of political regime is based on a statistical analysis of per capita public revenue in Europe (1650-1913). The table above shows the order of revenue raising ability, according to Dincecco's analysis. He argues that states were able to maximize revenues if they were first of all 'limited', in the sense that there was some kind of control over how the government spent tax revenues (e.g. a parliament monitoring the Crown) and secondly if they were centralised, in the sense that the central government had the authority to set a uniform tax rate and all regions payed the same amount and the same kind of taxes. Concerning the process of developing towards a centralised and limited fiscal state, Dincecco (2009) argues that centralisation and limited government, although being interdependent, happened in chronological order, whereby limited government followed decades after centralisation. Fiscal centralisation typically occurred in the context of large-scale administrative reforms that established new state bureaucracies. The largest obstacle to the centralisation of revenue streams, was the resistance of the nobility. In fragmented polities, there was a close relationship between tax control and political autonomy. Centralised taxes therefor threatened the position of the nobility, who opposed these reforms. Limited government could be considered a form of compensation towards the nobility, which explains why monarchs gave up some of their own power. Dincecco explains this dynamic as follows: in order to centralise revenue (and thereby increase the monarch's funds) there had to be some kind of guarantee that revenues would also be used for public services and the way of making this credible was by surrendering budgetary control.

2.2 Warfare and centralisation in modern Ethiopia

How do these concepts, relating to warfare and fiscal centralisation, help us understand the history of the Ethiopian state? Warfare was one of the drivers behind centralisation of the modern Ethiopia empire. And, like European states, the central Ethiopian state had to deal with a feudal system of power distribution in the process of centralisation. This section will therefore discuss two questions. First, did warfare have similar effects on the collection of revenue and on the development of nationalism in Ethiopia, as it did in Europe? And second, to what extent did centralisation of power occur?

First, the role of external threats in the unification of the Ethiopian empire is clearly present in Ethiopia's state formation literature. As stated in the introduction, the coronation of emperor Tewodros in 1855 is widely considered to be the beginning of the modern Ethiopian state (e.g. Clapham, 1969; Tsegaye, 1996; Bahru, 2002). Bahru (2002) argues that the external threats posed by rulers in Egypt and Sudan were among the main motivations of Tewodros in starting this process of 'unification'. The threat of Egypt lead to a confrontation during the rule of Tewodros' successor: emperor Yohannes, who ruled from 1872 until 1889. Yohannes triumphed over the Egyptians, strengthening his position as leader of the Ethiopian empire. Yohannes was followed by Menelik II, who would remain emperor until his death in 1913. It was under his rule that Ethiopia faced the most influential external threat: the Italian invasion of 1896. In the decisive battle of Adwa, Ethiopia became the first African state to successfully fight off an attempt at colonisation by a European power. The second time however, in 1936, Italy succeeded in their attempt. Yet, despite having lost the war 1936 and being liberated with support of the British, the Italians again formed a common enemy and as such offered a source for nationalism in Ethiopia. It must be noted that the relation between warfare and nationalism was not one sided, but that the forces could function mutually reinforcing. Rubenson (1976) argues that the awareness of a spiritual and national identity was crucial in the survival of Ethiopian independence. In this consciousness, being an Orthodox Christian nation was essential, even though there was tolerance for other religions.

Second, as in Europe, warfare was a legitimate reason for Ethiopia's rulers to increase taxes. It appears that central revenues increased significantly throughout the period of the modern empire (1855-1974). Pankhurst (1967, 1968) states that emperor Yohannes was richer than any of his predecessors, receiving taxes both in cash and in kind from throughout the empire. He shows that central revenue kept increasing the years after the Italian invasion and finds that between 1902 and 1904, revenue was consistently in excess of expenditure. Tsegaye (1996) defines the Ethiopian state between 1855 and 1913, before Haile Selassie's rise to power, as the fiscal military state. He argues that throughout this period, the state focussed on maximising revenue, which was largely spent on military purposes. The role of warfare in this aim of maximising revenue is also reflected in the system of taxation, in which tax levels were often expressed in terms of the needs of soldiers (where one farmer was required to yield a part of his harvest, equal to the needs of one soldier) (Tsegaye, 1996).

A relation between warfare and external threats on the one hand, and militarisation and increased revenue on the other, thus seems evident. However, this does not yet demonstrate the extent to which the state became militarily and fiscally centralised. When the Ethiopians united against the Italians in 1896, much of the military was still under provincial command. According to Tsegaye (1996), an estimated 90,000 troops under central command paraded in Addis Ababa in 1903, to commemorate the Battle of Adwa. Estimates of the total amounts of troops under Ethiopian command during the battle of Adwa (in 1896) vary considerably. Tsegaye (1996) finds 358,000 troops to be the most realistic estimate.[5] That would mean that about 268,000 troops were under (autonomous) provincial command in the early 20th century. Concerning fiscal centralisation, Pankhurst (1967, 1968) and Tsegaye (1996) demonstrate growth in revenue over time. However, central revenue is not compared to revenue that remained on a provincial or local level, nor is it compared to the total resources available in the economy.

As such, we cannot conclude that power became fully centralised in the Ethiopian state between 1855 and 1913. There seems to be agreement amongst scholars that centralisation of power was achieved under emperor Haile Selassie. Scholars point to centralisation of all three core components of state capacity: fiscal centralisation, the formation of a professional army and the bureaucratization of the state apparatus (Markakis & Asmelash, 1967; Eshetu, 1984; Bahru, 1984; Tsegaye, 1996; Young, 1996; Clapham, 1969). Fiscal centralisation took place through the abolishment of the traditional tax system and a range of uniform tax rates proclaimed in the early 1940's, the first few years after liberation (Eshetu, 1984). Concerning the military, Haile Selassie reorganised the army in two major ways: (i) he took the control over the central troops from the nobility and gave it to government trained officials and (ii) he reorganised the provincial troops and appointed their

[5] Tsegaye (1996) calculates the grain that would have to be collected from the population in order to sustain this number of troops throughout the war. According to his calculations, the amount required is consistent with what could be raised from the population at that time.

leadership based on loyalty to himself (Tsegaye, 1996). In addition, the emperor created a regular police force in the provinces. As with the military, the state administration also developed from an apparatus controlled by the nobility to a state bureaucracy, with the subordination of the provincial administration to the Ministry of Interior (Markakis & Asmelash, 1967).

The question remains if these formal rearrangements in the distribution of power were put in practice. Transferring (at least in part) their military power to the central state, was perhaps a logical choice for the traditional nobility given the external threats described above. More uncertainty remains concerning the centralisation of bureaucratic and fiscal capacity. Bureaucratic capacity tends to increase as a by-product of the creation of a system of centralised revenue. The question that then remains is if (effective) fiscal centralisation indeed took place under the Haile Selassie government, as illustrated by Figure 1:

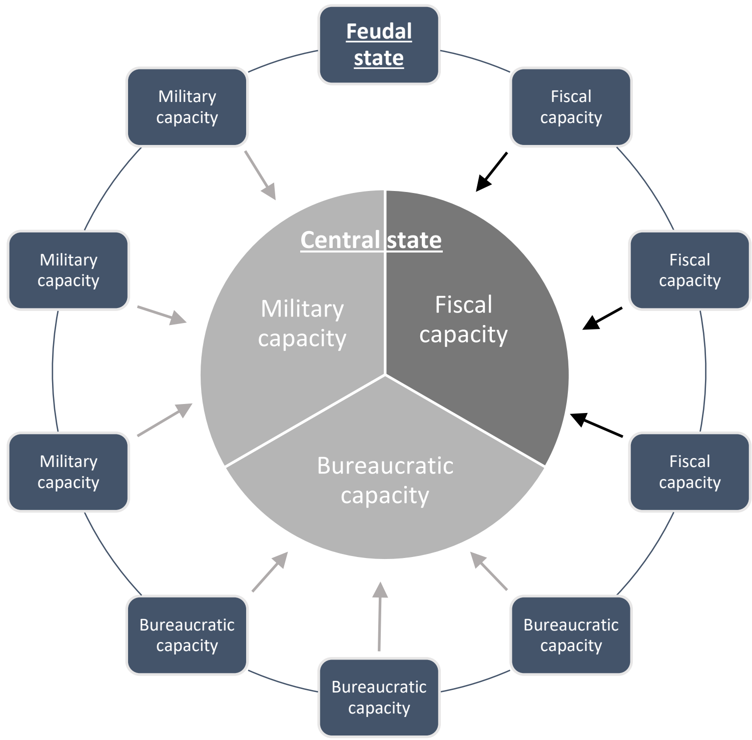


Figure 1: centralisation of state capacity

The data analysis in this study aims to find an answer to that question. To what extent revenue streams were centralised, will be tested by comparing Ethiopia's central revenue (relative to its GDP) to that of African colonial states. The assumption is that African colonial states were not successful in centralising revenue. As such, if Ethiopia did manage to centralise fiscal capacity, the expectation is that it would have raised more public revenue.

If revenue streams indeed turn out to have been centralised, this raises the question why feudal rulers would surrender fiscal control to the central state? If a process of exchanging concessions between the feudal nobility and the central state took place as it did in Europe according to Dincecco (2009), the expectation would be that some forms of limited government developed. Indeed, two institutions present within the Haile Selassie government have been constructed for that purpose, namely the constitution and parliament (Markakis & Asmelash, 1967). The question is again if these institutions effectively allowed the nobility to control expenses of the central fiscal state. Therefore, the second question of this study is if there is a deviation in Ethiopia's pattern of central expenditure distribution, compared to patterns of African colonial expenditure. The assumption here is that African colonial states did not have any form of accountable government and as such there were no mechanisms in place to steer expenses towards purposes improving the welfare of the population. Therefore, if these institutions did develop under Haile Selassie's rule, I expect a higher share of expenses distributed towards improving the welfare of the population. The next and final section of this chapter elaborates on the foundations of these two assumptions.

2.3 The development of fiscal institutions in Africa

As stated in the previous section, there are two assumptions made in this study in the comparison of Ethiopia to African colonial states. On the revenue side, the assumption is that colonial states were not able to maximise revenue because they did not exercise full fiscal control over the states they ruled. On the expenditure side, the assumption is that colonial states did not prioritise welfare expenditure because there were no mechanisms in place that held states accountable for the redistribution of resources. The literature on which these assumptions are based, is discussed in this section.

The lack of control required to maximise central revenue, did not just form an issue in colonial Africa, according to Herbst (2000). He argues that the expansion of the domestic power infrastructure has been problematic throughout African state history, because of low population density. The more people are spread out over a territory, the higher the costs are of extending political authority over those people. This difficulty is why, according to Herbst (2000), states in pre-colonial Africa extended power in a very different way than was customary to European rulers. Where the European model is based on sovereignty over a fixed territory, traditional African rulers radiated power from a capital. The further people lived away from a capital, the further they were from the reach of the state. When European powers colonised Africa, they introduced fixed boundaries and created territories over which different governments obtained sovereignty. However, as stated in chapter one, the colonial rulers weren't prepared to make the high investments necessary to extend their political authority over these sparsely settled lands, creating a state system in which governments did not have the capacity to control the territory over which they claimed authority.

Although this explanation helps to understand the challenge of raising revenue that colonial rulers in Africa faced, it does not recognize the variation in fiscal constructs across Africa. In the context of the debate on the minimalist versus the extractive view discussed in the introduction, Frankema (2011) argues that there was no consistent pattern of fiscal development throughout Africa. Minimalism prevailed in West Africa, whereas extractive features were more pronounced in East Africa. These differences can to a large extent be attributed to the opportunities for international trade available to a state. Frankema & Booth (2019) argue that opportunities to engage in international or imperial trade were the most important driver of cross-colony variation in budget size. Colonial trade had a direct impact on public finance through the revenue from custom duties, but indirectly it also increased revenue through the growing domestic economic surpluses (Frankema, 2011). Many colonial states preferred custom duties to domestic taxes, because they were relatively easy and cheap, but also because the political risks were smaller. These taxes were less 'visible' and were therefor less likely to cause protest than a land tax would for example do (e.g. Frankema, 2011; Gardner, 2012).

However, not all colonial states had sufficient opportunities to benefit from international trade. Frankema points out that East African governments, as opposed to West African governments, were much less relying on customs duties, because there was on the one hand less revenue potential in customs for East Africa, and on the other hand the trade tariffs were much lower. The potential for customs revenue of a colonial state was highly related to its location and whether it had access to the sea. In a review of presumed differences between British and French colonial rule, Frankema and Waijenburg (2014) show that the most important variation in per capita revenue levels among African colonial states (both French and British), was the difference between coastal and landlocked colonies. Direct taxes generally had low yields because they required more administrative capacity which, as discussed before, colonial governments were often not willing to invest in. As a result, those colonies that were relying more on direct taxes, were generally the ones with lower overall public revenue, which explains why Frankema and Waijenburg (2014) also found a negative relationship between budget size and direct tax shares.

Concerning expenditure and the assumption that limited government did not develop under colonial rule, Frankema and Booth (2019) point out that the colonial state was not shaped through negotiation dynamics between the state and its citizens, and therefore "the development of accountable government, was by definition impossible under colonial rule." (Frankema & Booth, 2019, p. 22). They use the concept of accountable government to refer to the institutions that allow citizens to hold their states accountable, which develop as negotiations over tax reforms and the redistribution of revenue take place. The concept as such aligns with the concept of limited government as explained by Dincecco (2009). Frankema (2011) explains that proponents of both the 'minimalist' perspective and the 'extractive' perspective agree that colonial public expenses were aimed at securing colonial order. However, they believe so for different reasons. From the minimalist perspective, the allocation of public resources was a result of underdeveloped fiscal systems not having enough resources to spend anything on social purposes, whereas from an extractive perspective, it could be argued that alternative spending options were deliberately neglected. In any case, there were no mechanisms in place through which native populations could steer expenditures towards improving their own welfare.

3. Results: fiscal institutions of the Ethiopian state in comparative perspective

So far, no attempt has yet been made to place the effectiveness of the fiscal institutions of the Haile Selassie government in comparative perspective. This chapter has the aim of filling that void. First, the fiscal capacity of Ethiopia's central state is compared to a sample of twenty-two colonial states from across sub-Saharan Africa, to test the hypothesis that the central Ethiopian state had greater fiscal capacity than African colonial states. In section 3.2, the revenue patterns of Ethiopian state are studied in more detail to create a better understanding of the results presented in section 3.1. The second hypothesis- that the central Ethiopian state allocated a larger share of its resources towards improving the welfare of its population- is tested in section 3.3, by comparing the distribution of expenditure of the central Ethiopian state to the patterns of distribution among African colonial states.

3.1 The reach of the central state: fiscal capacity in comparative perspective

Fiscal capacity is defined in this study as the ability to raise revenue. To assess how much revenue a state can raise, non-fiscal revenue (NFR) is subtracted from gross public revenue (GPR), resulting in fiscal revenue (FR) (Frankema, 2011). This number is then divided by the population to assess the amount relative to the population. The result is the fiscal revenue per capita for state *x* in year *t*:

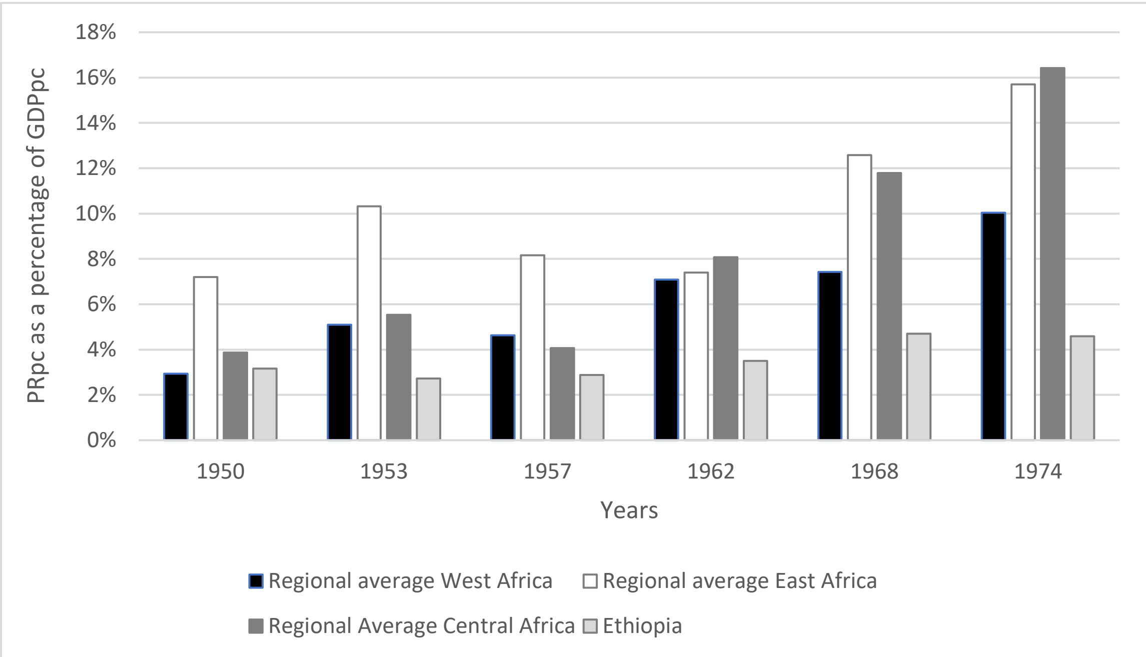
$$FRpc_{xt} = (GPR_{xt} - NFR_{xt}) / POP_{xt}$$

The revenue raised per capita is not enough to test fiscal capacity, as it does not take into account the potential for raising revenue that a state's economy has to offer. It must be considered in relation to the size of the economy. Fiscal revenue per capita is therefore expressed as a percentage of gross domestic product (GDP) per capita:

$$FC_{xt} = FRpc_{xt}/GDPpc_{xt}$$

Based on the resulting fiscal capacity, the central state of Ethiopia is compared to African colonial states. The sample of colonial states includes twenty-two states from across sub-Saharan Africa.[6] Figure 2 shows a comparison of Ethiopia to the regional unweighted averages of West Africa, East Africa and Central Africa, for the six benchmark years.

Figure 2: Fiscal capacity of Ethiopia's central state compared to the regional averages of African colonial states



Sources: Data on GDP per capita from the 'Maddison Project Database, version 2018'. Data on public revenue for African colonial states from Mitchell (1998). Ethiopian central public revenue from the dataset 'Tabular Profile of Ethiopia's Public Revenue & Expenditure' (Ethiopian Ministry of Finance, 1995). IMF exchange rates were used to convert local currencies to 2011 USD. For the years 1950, 1953, 1957, population estimates of 'The Frankema-Jerven African Population Database 1850-1960, version 2.0' were used to calculate per capita public revenue. For the years 1962, 1968, 1974, World Bank (2017) data was used.
Notes: In 1974, Central Africa is comprised of only Chad (5,3%), Gabon (22,7%) and Congo-Brazzaville (21,4%). Averages of East Africa are high mainly due to fiscal capacity of Mozambique (18,4% on average for the five benchmark years) and Zambia (22,8% on average for the five benchmark years).

The figure shows that where the Ethiopian central state still had comparable fiscal capacity to West- and Central Africa in 1950, the other regions all grew considerably stronger throughout the period, while the growth of Ethiopia's fiscal capacity was limited. In 1974, the average fiscal capacity of West African states was more than double that of Ethiopia, whereas the averages for East Africa and Central

[6] See Appendix 1: African states, Central Public Revenue per capita as a percentage of GDP per capita

Africa were more than triple Ethiopia's value. The data used was not sufficient to provide an average of North-East Africa, but in comparison to neighbouring Sudan, the Ethiopian fiscal state again appeared limited in strength. The state managed an increase of slightly over 1 percentage point, from 3.2% in 1950 to 4.6% in 1974, whilst Sudan's fiscal capacity more than triples, from 4.5% in 1950 to 15.8% in 1974. The unweighted average of all African colonial states in the sample grew from 4.8% in 1950, to 13.5% in 1974.

Before exploring Ethiopia's fiscal strength further, it must be noted that East Africa scored remarkably high in the first three benchmark years and West Africa performed notably poorer than both East Africa and Central Africa for the last two benchmark years. The averages for the regions, of course, do not offer the complete picture. The unweighted average of East Africa for all states and for all benchmark years is 10.2%. However, this number decreases to 5.1% when excluding Mozambique and Zambia.[7] In comparison, those same averages are 5.8% for West Africa and 7.9% for Central Africa.

Another (part of the) explanation for West Africa's lower scores in 1968 and 1974, may be a lack of development of fiscal capacity due to reliance on revenue from trade. Frankema (2011) argues that where colonial states had relative ease in obtaining revenues, they tended to act in a minimalist fashion. In West Africa, colonial states could rely on customs revenue due to the large share of trade in those economies. In East Africa, colonial states were forced to rely more on direct taxes and as such had to develop stronger fiscal institutions. A result of this dynamic may have been that in the last phase of colonial rule, fiscal capacity was stronger in some East-and Central African states than it was in West Africa, as more effective fiscal institutions had developed in the preceding decades.

As noted, we must look beyond regional averages to determine how strong Ethiopia's central fiscal state was in comparative perspective. When ranking the individual states in the sample according to fiscal capacity for the six benchmark years, the same pattern appears of Ethiopia lacking behind in fiscal strength.[8] Ethiopia ranks in a middle position in 1950, but for all other benchmark years it belongs to the bottom ranking states.[9]

Reflecting on the working hypothesis, it has become evident that Ethiopia's central state did not have stronger fiscal capacity. On the contrary, its ability to raise revenue appears to have been poorer than that of most African colonial states, with the difference growing over time. How can this be explained?

3.2 Composition of revenue

In this section, the revenue patterns of Ethiopia's central state are studied in more detail to create a better understanding of the development of its fiscal capacity. The overall patterns are compared to general developments of revenue in African colonial states, to find an explanation for Ethiopia's comparatively limited fiscal capacity. To analyse the revenue development of Ethiopia's central state, the data collected in this research is merged into three main categories: tax revenue, non-tax revenue and external revenue. Figure 3 shows how the ratio of revenue sources developed within the period under discussion, based on the six benchmark years. The figure illustrates that, despite the growing share of external revenue, tax revenue remained the largest source of income. Tax revenue is further divided into direct taxes, indirect (internal) taxes and foreign trade taxes.

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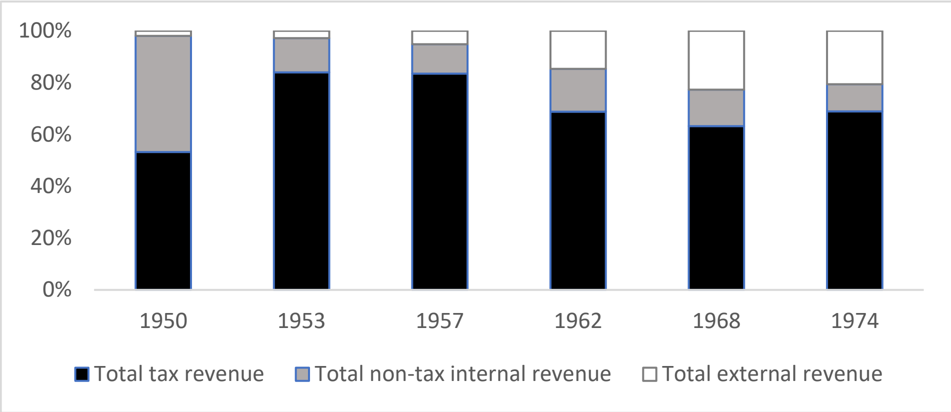
[7] Zambia's high fiscal capacity can largely be attributed to the income from the copper mining industry, which dominated the economy since 1928 and was nationalised in 1969 (i.e. Lungu, 2008)

[8] See Appendix 2: States ranked according to fiscal capacity

[9] Ethiopia's ranking: 1950: 12TH/20, 1953: 19TH/20, 1957: 19TH/21, 1962: 18TH/21, 1968: 16TH/18, 1974: 17TH/17

Figure 3: Composition of total public revenue by source, central Ethiopian government



Source: calculated based on data from 'Tabular Profile of Ethiopia's Public Revenue & Expenditure' (Ethiopian Ministry of Finance in, 1995).

Based on Ethiopia's economy, direct taxes in theory offered a large source of revenue. Between 1960 and 1974, agriculture accounted for approximately 55% of Ethiopia's GDP (Mitchell, 1998).[10] Furthermore, a traditional system of direct taxation was in place through which this source of revenue could be retrieved (Tsegaye, 1996).

However, the question is if the central government was able to use that traditional system to extract resources for itself, as was attempted through legislation (Eshetu, 1984). This does not appear to be the case: the direct taxes on average only constituted 27% of the total tax revenue between 1950 and 1974.[11] It accounted for 18% of total revenue for the period under discussion. Cogneau, Dupraz, and Mesplé-Somps (2016) present data which shows that direct taxes accounted for slightly over 20% of public revenue in French colonies in West Africa, between 1945 and 1955.[12] They exclude subsidies and grants but include non-tax revenue. When doing the same for Ethiopia (by only excluding external support), Ethiopia's direct taxes accounted for 27% of public revenue on average, between 1950 and 1955. The share of direct taxes in Ethiopian central public revenue was thus slightly higher than in French West African colonies, but still low in relation to the share of agriculture in the economy. So, on what other sources of revenue could the Haile Selassie government rely?

Like many African colonial states, the central Ethiopian state relied strongly on foreign trade for its income. Between 1950 and 1974, taxes on foreign trade on average accounted for 47% of tax revenue, peaking at 59% in 1955. As explained in the previous chapter, many African colonial states preferred custom duties to domestic taxes, because they were relatively easy and cheap, and because the political risks were smaller. However, for the Ethiopian state, the potential in customs revenue was very limited. Table 1 shows that the value of foreign trade corresponded to only about 6% of Ethiopia's GDP. The Ethiopian state was successful in extracting between 13% and 20% of that value through taxes. The data shows that the state focussed mainly on import duties, through which approximately a quarter of the total import value flowed to the central government. Export was taxed significantly less, although the value of export revenue relative to the total value of export did almost triple, between 1950 and 1974.

[10] The average share of agriculture in Ethiopia's GDP was 59% for the years 1961-1964, 55% for the years 1965-1969 and 49% for the years 1970-1974, according to Mitchell (1998).
[11] The direct taxes consisted for the most part of the personal income tax and the rural land use tax
[12] *'Figure 11: Distribution of net revenue by source, French and British colonies'* (Cogneau, Dupraz, and Mesplé-Somps, 2016, p. 19)

Table 1: Value of Ethiopian foreign trade and revenue from foreign trade

	1950	1953	1957	1962	1968	1974
Value in the economy as a percentage of GDP						
Import value	2.8%	2.9%	3.3%	3.7%	3.8%	3.5%
Export value	2.4%	3.6%	3.6%	2.8%	2.4%	3.3%
Total foreign trade value	5.2%	6.5%	6.9%	6.5%	6.2%	6.8%
Tax revenue as a percentage of total value in the economy						
Revenue from import tax (out of total import value)	22.6%	26.7%	21.8%	26.9%	25.1%	28.4%
Revenue from export (out of total export value)	3.2%	6.1%	7.0%	8.7%	9.7%	9.1%
Revenue from foreign trade tax (out of total foreign trade value)	13.6%	15.3%	14.1%	19.0%	19.2%	19.0%
Tax revenue as a percentage of total tax revenue						
Import trade taxes	42.3%	40.4%	32.1%	39.8%	34.4%	31.0%
Export trade taxes	5.2%	11.3%	11.1%	10.0%	8.2%	9.5%
Revenue from total foreign trade tax	47.4%	51.8%	43.2%	49.8%	42.6%	40.4%

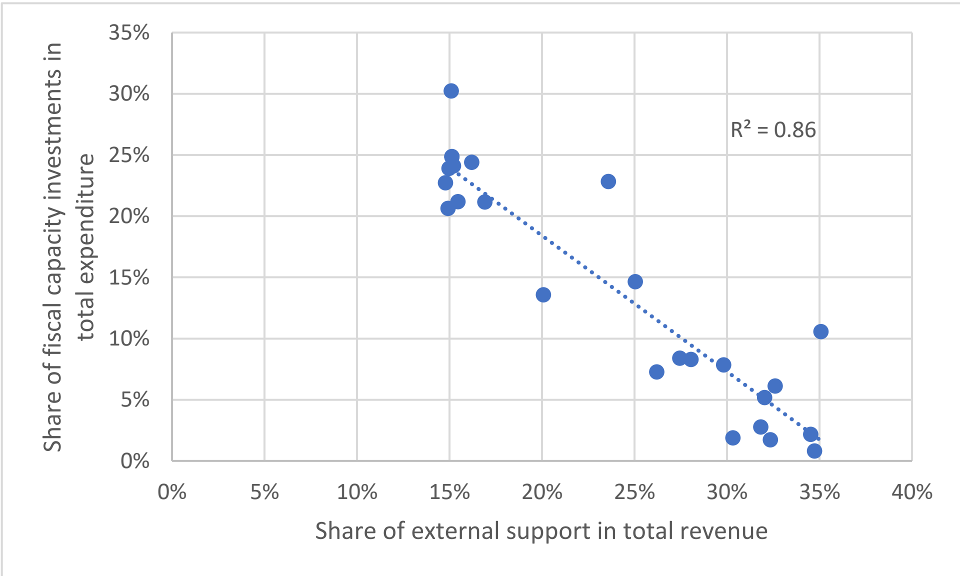
Sources: GDP data from the 'Maddison Project Database, version 2018'. Import and Export data from the 'Statistical Abstract 1972' (Central Statistical Office of the Imperial Ethiopian Government, 1972) and the 'Statistical Abstract 1975', (Central Statistical Office of the Provisional Military Government of Socialist Ethiopia, 1975). Revenue data from 'Tabular Profile of Ethiopia's Public Revenue & Expenditure' (Ethiopian Ministry of Finance in, 1995)

The data presented in Table 1 aligns with the image that has emerged so far, of a central state with limited control at a decentralised level. Because of this limited control, the state relies on that which is typically controlled from the centre: foreign trade (despite it only accounting for about 6% of the economy).

Foreign relations provided a source of income for the central government in a second way. As Figure 3 illustrates, the share of external support in the central government's total revenue increased significantly in the period under discussion. This support consisted out of grants and loans. The share of external support in total revenue increased from only 2% in 1950 to 21% in 1974. External support was a second relatively easy way for the central state to obtain revenue. The increasing reliance on these revenue streams raises the questions if they could have distorted the development of fiscal capacity. In much of colonial Africa, loans and grants were used in attempt to combat the call for independence, which they obviously failed to do. They did however reduce incentives for fiscal reforms. "In the long term this element of the colonial institutional heritage proved much more difficult to overcome than colonial rule itself." (Frankema, 2011, p. 21). The fact that the Haile Selassie regime could use external support to meet expenditure demands, may have also taken away incentives to improve the system of revenue collection.

To test if these two factors were indeed related, two categories that can be considered essential to the improvement of revenue collection are analysed: government administration and infrastructure. The government administration required, among other things, trained officials that could run the modern bureaucracy that Haile Selassie wanted to create (Pankhurst, 1968). Second, like other African states, Ethiopia did not yet have an effective infrastructure which was required to limit the cost of tax collection (Shiferaw, 1992). Thus, investments in both administration and infrastructure would have been essential to increase the fiscal capacity of the central state. To analyse infrastructure expenditure, expenditure on communication is added to expenditure on construction. Together with expenditure on administration these posts are considered as investments in fiscal capacity. The question raised here, is if the ability of the central government to rely on external support may have decreased incentives to invest in fiscal capacity. Figure 4 shows that there was a negative correlation (R^2=0.86) between the share of fiscal capacity investments in total expenditure and the share of external support in total revenue, for the years 1950-1974.

Figure 4: Correlation investment fiscal capacity- reliance foreign support, for the years 1950-1974



Source: calculation based on data from 'Tabular Profile of Ethiopia's Public Revenue & Expenditure' (Ethiopian Ministry of Finance in, 1995).

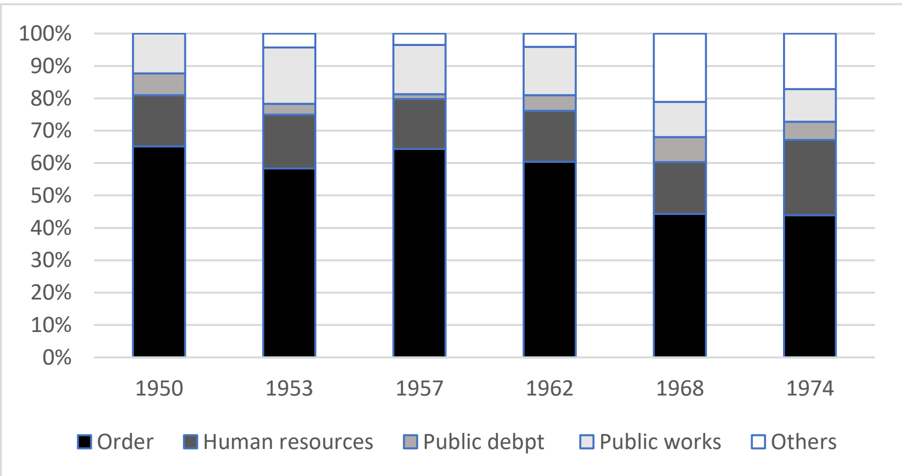
The data seems to correspond with the hypothesis that external support reduced incentives to invest in fiscal capacity. Of course, it does not present proof of a causal relation. The share of administration in expenditure decreased over time, which might be explained by the high initial costs of setting up a state bureaucracy, in the early stage of the Haile Selassie regime. Similarly, infrastructural projects may have required higher investments in the first period after liberation. External support on the other hand, increased over the period under discussion, as Ethiopia expanded foreign relations (Bahru, 2002). Yet, a sense of urgency to improve revenue collection would have most likely been much higher if the option of loans and grants was not there. This aspect is especially relevant to point out, as it relates to the question if independence from colonial rule also allowed for independent development of state institutions, which does not appear to be the case.

The data presented in this section shows that the central Ethiopian state relied on international relations for a large part of its revenue, through taxation of imports and exports, and through receiving external loans and grants. Direct taxes, on the other hand, accounted for a smaller share of revenue than was to be expected, based on the role of agriculture in the economy and the existence of a traditional fiscal system based on direct taxes. In relation to the results displayed in section 3.1, this data suggest that the limited fiscal capacity of the central Ethiopian state can best be explained by the limited control that the central state gained over the traditional fiscal system, rather than the limited revenue raising potential of that system itself. In the next chapter, this implication will be further discussed in relation to the existing literature. A second observation based on the data presented in this section, is that the revenue patterns of Ethiopia's central state are remarkably similar to those of African colonial states. To complete the picture of its fiscal development, the question that now remains is if it also showed similar behaviour concerning investments in the welfare of its people?

3.3 Expenditure patterns and welfare investments

The main hypothesis tested in this section is that the central Ethiopian state allocated a larger share of its resources towards improving the welfare of its population than African colonial states did. The hypothesis follows from the reproach that colonial governments spent little of the revenue that they raised from the African colonies to benefit those populations. Instead, much of the resources extracted were spent on the costs of the colonial governments themselves (e.g. Frankema, 2011; Huillery, 2013). Frankema (2011) uses seven spending categories in order to analyse patterns in expenditure: 1) administration, 2) public debt, 3) the military, 4) domestic security, 5) health care, 6) education, and 7) public works. In order to place this data within the extractive versus minimalist debate, Frankema (2011) categorises spending on administration together with domestic security and the military as the group of expenses used to sustain colonial order over a state. He compares this category to the expenditure that is considered to benefit the native population: expenses on health care and education. Applying the same categorisation to fiscal data of the Ethiopian central state results in the distribution presented in Figure 5.

Figure 5: Distribution of total public expenditure by category, central Ethiopian government



Source: dataset 'Tabular Profile of Ethiopia's Public Revenue & Expenditure' (Ethiopian Ministry of Finance in, 1995).
Notes: Human Resources (HR) expenditure includes education and healthcare. Order expenditure includes administration, domestic security and military.

Expenses on order took up the largest share of expenditure, with a significant decrease from 65% in 1950 to 44% in 1974. Although the dominance of expenditure on order relative to human resources is similar to colonial spending (in the early 20th century), there is an important difference. Colonial spending on order was mainly made up out of the costs of administration. These accounted for more than one fifth of expenditures across colonies in the 1920's (Frankema, 2011; Cogneau, Dupraz, and Mesplé-Somps 2016). Administration costs were often high due to the relatively high wages of European personnel (Huillery, 2013). In Ethiopia, administration accounted for 19% of total expenditure in 1950, but decreased significantly over time, to only 9% in 1974. Military and domestic security costs in Ethiopia were much higher. For the years 1950-1974, military expenditure on average accounted for 24% of total expenditure, decreasing by a third from 27% in 1950 to 18% in 1974. Expenses on domestic security remained relatively stable around an average of 19% between 1950 and 1974.

Expenses on human resources also remained relatively stable, around 16% of total expenditure. To assess the relation between the two categories, Frankema (2011) computes a 'human resources-order ratio': the ratio of investments in human resources (education and healthcare) versus the costs of establishing and maintaining colonial control (administration, domestic security and the military), calculated as 'human resources' divided by 'order'. In 1938, the unweighted average of this ratio for seven African colonial states was 0.43.[13] In Ethiopia, the ratio was 0.24 in 1950, suggesting that the prioritisation of order over human resources was higher for the central Ethiopian state. The ratio did more than double to 0.53 in 1974, showing that expenses on health care and education were still only about half those on administration, domestic security and the military, at the end of Haile Selassie's regime. The ratio (for the central Ethiopian state) has a positive correlation with real per capita revenue (R^2=0.75), suggesting that the importance of human resources relative to order shifted once the budget grew.[14]

Order was thus dominant in expenditure relative to human resources and the share of human resources grew with an increase in the budget. These findings are not sufficient to draw a conclusion on the main hypothesis. To properly compare the expenses on human resources of the Ethiopian central state to those of African colonial states, we need to look at these shares in the same time period (as the data on colonial expenditure so far relates to the first decades of the 20th century). Cogneau, Dupraz, and Mesplé-Somps (2016) present data on expenditure distribution of French and British colonies in West Africa, including data for the years 1952 and 1955. The authors look at net public expenditure and exclude military expenditure and public debt from their data. They further categories expenditure into administration, security, healthcare, education, infrastructure, production support and others. The data on Ethiopia's expenditure was recalculated using these categories in order to compare the distribution of expenses.[15]

Cogneau, Dupraz, and Mesplé-Somps (2016) show that the share of expenditure on education in the British colonies averaged at 12% in 1955, whereas it was 8% in French colonies. In Ethiopia, expenditure on education was 13% in 1955. However, this was the lowest share in the period under

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[13] Table 6 *'The 'resources-order ratio' in British Africa, 1910–1938: Colonial government spending on health care and education divided by spending on administration, domestic security and the military.'* (Frankema, 2011, p. 144)

[14] See Appendix 3: Correlation between Ethiopian central per capita revenue and the Human Recourses/Order-ratio, for the years 1950-1974

[15] See Appendix 4: Distribution of public expenditure by source, excluding military expenditure and public debt, central Ethiopian government

discussion. Expenditure peaked at 24% in 1966 and on average accounted for 19% of net expenditure in the years 1950-1974. Cogneau, Dupraz and Mesplé-Somps (2016) do not provide an exact figure for healthcare but show the share in French and British colonies, for the years 1952 and 1955, was between 5% and 10% of net expenditure.[16] The Ethiopian central state on average spent 5% of expenditure on health care between 1950 and 1955. The average was only slightly higher at 7% for all years 1950-1974.

For the other categories, there are a few important differences. French and British colonies in West Africa did not spent more than 5% of net expenditure on security in the early 1950's, whereas on average it accounted for 27% of Ethiopian net expenditure for the years 1950-1955. The share of administration was also larger in Ethiopia. Cogneau, Dupraz, and Mesplé-Somps (2016) state that administration accounted for 11% of net expenditure in both British and French West African colonies in 1955. Ethiopia still spent 28% of expenditure on administration in 1955, although the share did decrease significantly to 12% in 1974.[17] Investments in infrastructure accounted for approximately 30% of net public expenditure in both French and British colonies, for the years 1952 and 1955. In Ethiopia, average expenditure on infrastructure was 20% between 1950 and 1955. As stated in the previous section, this share started to decrease after 1960, where it was still 22%, to an average of only 7% for the years 1970-1974. Finally, in 1955, production services were about 10% of net expenditure in British colonies and almost 20% in French colonies. The Ethiopian central state only apportioned a small share of expenses to production support, most of which went to economic services in the agricultural sector. The share was 2% in 1955 and gradually increased to 6% in 1974, with one high peak of 14.2% in 1967, due to agricultural investments.

In conclusion, no evidence has been found to support the working hypothesis that the central Ethiopian state allocated a larger share of its resources towards improving the welfare of its population than African colonial states did. The state distributed a similar share of expenses to health care and spent slightly more on education, which at times did account for almost a quarter of net expenditure. Like the distribution in colonial states, sustaining order was dominant in expenses relative to human resources. Expenses on administration and domestic security were in fact higher than in African colonial states, whereas investments in infrastructure were lower and significantly decreased over time.

Reflecting on both hypotheses in relation to the first research question, the conclusion must be drawn that the Ethiopian central state under the rule of Haile Selassie did not have more effective fiscal institutions than African colonial states did. How can these results be explained and what do they imply for existing notions on fiscal centralisation under the Haile Selassie regime, and on the effectiveness of colonial fiscal institutions in Africa?

4. Native versus colonial rule in Africa: differences and similarities

This chapter aims to explains the results presented in Chapter 3 and discuss the implications for existing literature. It provides an answer to the second question posed in the introduction: to what extent can the fiscal performance of the central Ethiopian state be attributed to the main elements

[16] *'Figure 6: Distribution of net expenditure by source, French and British colonies'* (Cogneau, Dupraz, and Mesplé-Somps, 2016, p. 15)

[17] Cogneau, Dupraz, and Mesplé-Somps (2016) include expenditure on justice in administration expenses. In the dataset of Ethiopia's expenditure, justice and domestic security are categorised together and could not be separated. Therefore, in reality the difference in security costs was smaller than these figures suggest, whereas the difference in administration expenditure was larger.

that separate it from African colonial rule, namely: the existence of a feudal system of control and independence from colonial rule? Explaining the role of independence in Ethiopia's fiscal developments means offering a counterfactual to colonial rule in Africa, and as such indirectly addresses what the impact was of colonial rule on fiscal state development in Africa. The questions are addressed in three sections. Section 4.1 addresses the key finding of this study, namely the fact that fiscal capacity of the Haile Selassie government was weaker than fiscal capacity in most African colonial states. Section 4.2 elaborates on the differences and the similarities in the distribution of resources, in relation to accountable government. Finally, section 4.3 reflects on the challenges to African rule posed by Herbst (2000), to find out to what extent the similarities with colonial rule, rather than differences, may in part explain the results.

4.1 Subjugation of traditional systems: native versus colonial centralisation in Africa

The explanation of the limited fiscal capacity of Ethiopia's central state, in comparison to the African colonial state, can be sought in aspects of both. To start with the Ethiopian side, in the analysis of Haile Selassie's rule, literature tends to focus on the ways in which he succeeded to centralize power. Bahru (2002) points out that the process of undermining the hereditary nobility began before 1936 and continued under Italian occupation, which made the continuation of centralisation after liberation easier. Both Markakis & Asmelash (1967) and Clapham (1969) emphasise how the provincial nobility was weakened under the rule of Haile Selassie, and how institutions failed to limit the power of the central state. In fact, Clapham (1969) argues that parliament only functioned to keep rebellious noblemen close to court where they could not obstruct the state. This focus on what happened at the centre, of which the analysis may be correct, neglects the continued power the nobility could have continued to wield at the decentral level.

Functions of the traditional feudal system of taxation may have continued to function under Haile Selassie's rule, despite the official abolishment. Before the rise of the modern Ethiopian state, Ethiopia's fiscal system was based on a feudal mode of production (Tsegaye, 1996). Feudal lords collected taxes in the form of harvest or services. The latter could include working the land of the lords or performing military service. The continuation of feudal tax extraction may have occurred in several ways. First, people in Ethiopia still had the right to pay taxes in kind until the Italian occupation (Pankhurst, 1967, 1968). In the new system as implemented under Haile Selassie, all payments were to be made in cash. It is questionable if, for example, farmers in remote areas were able to do so and, if not, what happened to the taxes that they may have continued to pay in kind? In the traditional tax system, a local chief, the *chiqa shum,* was usually in charge of tax collection (Pankhurst, 1967,1968). Pankhurst notes that these chiefs were often extortionate.[18] As such, practices of raising in kind taxes which that did not flow to the central state may have continued to occur.

In addition to the extraction of agricultural resources, the traditional feudal system may have also continued to extract labour resources. Pankhurst (1967, 1968) explains that labour services to both provincial and central rulers were for a long time still an obligation in the modern Ethiopian empire and could also be used in lieu of paying grain. In 1934, Haile Selassie issued a decree which freed farmers who provided for the needs of the population from obligations of personal service to a governor or chief (Pankhurst, 1967, 1968). Again, it is questionable if this new practice was fully implemented after liberation. An important question to raise, if we assume that feudal extraction of

[18] Pankhurst (1967, 1968) adds that these chiefs were expected to provide their lord (often the provincial governor) with the agreed tax, even if this could not be raised from the people.

grain and labour services did continue, is if local and regional rulers still had any military capacity to enforce these practices?

There seems to be agreement that the military was also centralised under Haile Selassie (e.g. Tsegaye, 1996; Bahru, 2008). However, military functions in the traditional system were much broader than those performed by the modern army. According to Tsegaye (1996), the distinction between the 'peaceful' activity and the military activity performed by the army was present only at the royal court. In the provinces, these functions were much more integrated. As such, it is difficult to establish which part of the provincial troops ended up being integrated into a central army. Bahru (2008) considers an estimate of 40,000 central troops to be under Haile Selassie's command after liberation (p. 287). Given the estimated size of the total imperial army in 1896 (358,000 troops), it is likely that these troops only reflected the centralisation of military functions, while regional rulers continued to employ troops under the traditional mandate to exercise functions such as revenue collection.

The soldiers themselves may have also accounted for a part of the local resource extraction. In the traditional system, soldiers could be paid in several ways. One of them was to be remunerated through the granting of land rights (Tsegaye, 1996). They could be given the right to collect benefits through leasing it, selling it or cultivating it themselves. Another form of payment was when they gained the right to collect taxes over certain land, in which case the peasants rather than the lands were appointed to soldiers. It is likely that practices like these (particularly the latter) continued long after the official abolishment of the traditional system.

In addition to continued functioning of the traditional fiscal system, a second important factor that limited central revenue was the Ethiopian Orthodox Church. In Ethiopia, the Church and the emperor were mutually supportive pillars of authority. The Church received many privileges from imperial powers, tax-exemption from their large land ownership being the most significant (Eshetu, 1984). As Haile Selassie did not end this practice, it continued to be a significant limitation of government revenue. Markakis & Asmelash (1967) argue that, in return, the Church played a big role in sustaining the authority of the emperor by confirming the Solomonic dynasty and the claim to authority. Finally, limitation of revenue must in all likeliness also be attributed to the limitations of the new modern bureaucracy itself. Pankhurst (1967, 1968) states that tax laws under Haile Selassie were only partially implemented as there was a great shortage of trained officials. (Pankhurst, 1968, p. 506).

In whatever way revenue was obstructed from reaching the central state, the limited fiscal performance shows that Haile Selassie was not able to gain full control over the extraction of resources available in the country. However, as explained in the Chapter 2, neither were African colonial states. Why did the vast majority of them have stronger fiscal capacity?

Colonial states faced a similar challenge as the Ethiopian central state in relation to traditional systems of taxation, in that they either had to replace them (direct rule) or wield them to their own benefit (indirect rule). However, the key difference is to be found in the basis of authority in doing so. Ethiopia was "the only country in Africa where dominant, centralized political authority derives essentially from traditional sources of legitimacy." (Markakis & Asmelash, 1967, p. 193). In colonial states, authority derived essentially from military power. The extent to which military power was used to subjugate populations varied across the continent. Killingray (1986) states that British colonial rule was for the largest part peaceful, based on "a mixture of bluff and consent" (Killingray, 1986, p. 412). Yet, he explains that the maintenance of law and order under colonial rule, required the government to raise arms against any threat to British rule. Thus, although the military 'bluff' allowed colonial powers to rule relatively peacefully, it did not mean that (extreme) violence was never enforced. Killingray (1986) states that all colonial powers in Africa used their air force to suppress resistance when deemed necessary. He names the example of the British Royal Air Force bombing forest hide outs of Kenyan resistance groups in the 1950's.

Other colonial powers had to rely on military violence more consistently. Portugal started with large territorial conquests in Angola in 1885, but it was not until 1920 that the colonial government's military campaigns succeeded in suppressing the last native resistance (Frankema & Alexopoulou, 2019). In Mozambique, the Portuguese only managed to break resistance with support of the British, in the 1890's, who in turn received commercial opportunities in the country.

Whether colonial powers structurally used military violence or not, the credible threat was essential to their authority. In Ethiopia, such violence would hurt the legitimacy of the government. As such, while Haile Selassie's traditional authority formed the foundation of legitimacy for the central state, it also ruled out the option of violent oppression that colonial states could pursue in order to subjugate the traditional fiscal systems to their will.

4.2 Welfare spending and accountable government

The credible threat to use military strength posed by colonial powers, may also explain a key difference on the expenditure side. Both the Ethiopian central state and African colonial states prioritised spending on order over spending on welfare of the population, but the dominance of expenses on order was significantly larger in Ethiopian expenditure.[19] Although sustaining colonial order was a priority to colonial states, it may have been relatively inexpensive due to scale advantages, in comparison to order investments required for the Ethiopian state. In addition, high investments in administration were a logical expense given the modern bureaucracy that Haile Selassie was trying to build after liberation. Indeed, administration costs eventually caught up with averages of colonial spending, whereas expenditure on domestic security remained comparatively high.

The main question concerning expenditure posed in this study, is if the Ethiopian central state distributed a larger share of its resources to improving the welfare of its population. As demonstrated in the previous chapter, the central Ethiopian state distributed a similar share of expenses to healthcare, compared to African colonial states. The share on education in 1955 was slightly larger than education expenditure in British West Africa and double that of French West Africa. Investment in education is one of the main accomplishments Haile Selassie is often praised for. Indeed, the data shows it accounted for a significant share in expenditure, increasing towards 18% in 1974. Yet, as stated, the share of expenses on healthcare and education taken together were only about half the expenses on sustaining order at its peak, and only about a quarter at its trough. As such, the data does not suggest that there were significant mechanisms in place to steer expenses towards improving the welfare of the population. Yet, mechanisms of accountability did exist in the Haile Selassie government.

Markakis & Asmelash (1967) point to two institutions which had the potential of limiting government and holding it accountable: the constitution and parliament. The first Ethiopian constitution of 1931 formalised the existing government state of affairs, in which essentially all power rested with the emperor (Markakis & Asmelash, 1967). A Senate and a Chamber of Deputies were created. Members of the Senate were appointed by the emperor from the nobility and the local chiefs. The Senate was in turn responsible for electing members of the Chamber of Deputies. Legislative

[19] In French and British colonies in West Africa, less than 20% of expenses (excluding military and public debt) were spent on administration and domestic security, in 1955 (Cogneau, Dupraz, & Mesplé-Somps, 2016), compared to 55% for the central Ethiopian state.

power ultimately remained in the hands of the emperor. The constitution also formalised the practice of ministers being individually appointed by the emperor and the absence of a collective body of ministers. Markakis and Asmelash (1967) argue that the chambers were created to involve the still powerful nobility in the process of centralising power. The provincial lords traditionally held a lot of power, as they possessed substantial military forces and were in charge of their own revenue collection. As Haile Selassie was integrating these functions into the central government, it was crucial to keep the resistance of the provincial lords to a minimum. Yet, in practice, the nobility who became the members of parliament had very little influence. Markakis and Asmelash (1967) point to the minimal cases in which parliament took action. There is no record of the chambers ever exercising their constitutional right to reject decrees promulgated by the emperor.

A revised constitution was proclaimed on November 4th, 1955. Although influenced by trends in other African states (including Eritrea) to modernise and advance the constitution, Markakis and Asmelash (1967) argue that the main purpose of the new constitution was to solidify the centralised power of the emperor even further. Its provisions gave the emperor complete power over the army, foreign affairs, and local administration. A second motivation for the revised constitution of 1955, was to solidify the incorporation of Eritrea into the Ethiopian empire (Markakis & Asmelash, 1967).[20] A significant change in the 1955 constitution was that it made the Chamber of Deputies elective, based on universal adult suffrage. The Senate remained reserved for the nobility, on appointment by the emperor (Markakis & Asmelash, 1967). As with the first constitution, a bill could only become law with the approval of the emperor. The cases in which parliament did try to block proposals made by the emperor tended to be financial in nature (such as a loan from the Italian Government and the health tax). They would all end up being approved, despite initial opposition (Markakis & Asmelash, 1967). Markakis and Asmelash (1967) state that Parliament mainly exercised its function by trying to control the ministers and their subordinates. They argue that this avenue was pursued as a way of avoiding confrontation with the emperor, while still voicing the concerns of their constituents. The ministers were however not responsible to parliament. The authors make the important note that, apart from having limited power, parliament also did not show any intention to expand their role in the political process and challenge the authority of the emperor.

As data suggests that no mechanisms were in place to steer expenses towards improving the welfare of the population, Markakis & Asmelash (1967) appear to have been correct in their analysis that the existing representative institutions did not limit the power of the central state. They emphasize the lack of resistance to the central state and to the emperor himself as the main cause. However, Dincecco (2009) helps us to understand that in a feudal system where the central state does not give up any control over expenses, it is unlikely that feudal lords will give up full control of their revenue. The trade-off where the nobility gained rights to control central expenses, in return for revenue control for the central state on the regional level, was most likely only a legislative reality on both sides. In addition, the lack of resistance from the nobility may be explained by another trade-off. Bahru (1984) argues that, where the nobility lost political rights with an increased power of the central state, the greater security in land rights and the acceleration of the privatisation process enhanced the nobility's economic privileges. When new tax laws were proclaimed aimed at taxing those lands,

[20] The UN decided in 1950 that Eritrea should become part of a federal system with Ethiopia, after having been under British military control since liberation. It maintained self-government in domestic affairs and had its own parliament. However, as the Ethiopian state was concerned about separate tendencies in the region, and the 1931 constitution did not apply to Eritrea, it wanted to confirm sovereignty over Eritrea in the new constitution

landlords often shifted the burden on to their tenants, causing poverty among farmers to remain high while central revenue remained limited (Eshetu, 1984).

Finally, in relation to the limited priority welfare spending got from the central government, it must be pointed out that if traditional systems of revenue collection continued to function, traditional systems of redistribution may as well have. Tsegaye (1996) points out that the Ethiopian Orthodox Church was part of society's control system, but also of the redistribution of resources. Similarly, feudal mechanisms of welfare redistribution may have continued to function under the Haile Selassie regime.

4.3 Colonial challenges or African challenges?

Ethiopia's unique features, of the existence of a traditional fiscal system and of independence from colonial rule, help in understanding why the state's central fiscal capacity performs poorly compared to African colonial states, and how expenditure patterns differed. The results cannot be directly attributed to these features, but rather seems to be the result of a failure to centralise the traditional system, which was not made easier by having native, legitimate government, as opposed to colonial rule. However, these two unique features of Ethiopian rule are not helpful in understanding the remarkable similar composition of central revenue that the Ethiopian central state had, compared to revenue composition in colonial states. In order to explain these similarities, this section examines what other features Ethiopian and colonial African states had in common. In other words, which features were inherent to African rule, in the phase of Haile Selassie's rule. As discussed, Herbst (2000) argues that there are three challenges that have continuously obstructed state formation in sub-Saharan Africa: (i) the cost of expanding the domestic power infrastructure, (ii) the nature of national boundaries and (iii) the design of the state system.

First, the challenge of expanding the domestic infrastructure was different in Ethiopia from most other African countries (both under traditional African rule and under colonial rule). The challenge for the Ethiopian state was not necessarily that its reach diminished the further away people lived from the centre. A decentralised system of control, which had developed over centuries, existed through the provincial rulers. The challenge for the Ethiopian central state was rather to take over that system and centralise control.

Second, Ethiopia's borders were also less arbitrary and less at odds with how power was traditionally exercised in the state. Borders were the result of the conquering of existing provincial territories and of successful defence of the outer borders against neighbouring colonial powers. The missing of significant territorial competition in that sense does not apply to Ethiopia. However, it can be argued that this changed once Ethiopia became more integrated into the international state system. Ethiopia's borders may have been shaped in a way similar to nation-state formation in Europe, but its sovereignty once those borders were established did not depend on the ability to exercise control over the claimed territory. The international recognition of the borders and the unwillingness to challenge them, may have taken away incentives to invest in the presence of the state throughout the territory, as it did in African colonial and post-colonial states. Furthermore, it must be noted that, despite the failed attempt at colonisation by Italy, agreements on what to do with the Ethiopian territory were still made by the colonial powers. First, there was the Tripartite agreement of 1906 between Britain, France and Italy, and second, there was the Anglo-Italian understanding of 1925 (Bahru, 2002; Del Boca, 1985). Colonial powers in this matter still created the idea that Ethiopia's independence existed only by their approval.

This relates to the third challenge described by Herbst (2000): the nature of the state system. In the first part of Haile Selassie's rule as regent and as emperor, before the Italian invasion, he was under constant pressure from the neighbouring colonial powers to modernise the Ethiopian state, at the risk of losing independence (Bahru, 1984, 2002; Del Boca, 1985). It is one of the reasons that the emperor made such great efforts to join the League of Nations, to which Ethiopia was admitted in 1923. As such, for Ethiopia to strengthen its sovereignty and protect the integrity of the territory, it was necessary to fit into the international state system and the internationally accepted model of nation states. This realisation did not only affect behaviour of the emperor, but also of the nobility that surrounded him. Territorial competition might have been stronger, and the central state weaker, if there had not been a realisation among the nobility that a central state was needed to protect Ethiopia from colonial intervention. In other words, the nobility was willing to give up some of their power to the central state, because the alternative might have been to have to give up much more power to a colonial state.

In a later stage, after liberation, the influence of foreign actors changed from a threat of colonial conquest, to that of technical and financial support. Despite not having a colonial ruler, Ethiopia too received financial support from outside the state. Support started with a limited grant from Britain in 1942, according to Eshetu (1984). Shiferaw (1995) points to the US and the World Bank Group as the most important sources of technical and economic assistance up to 1974. Ethiopia became one of the first beneficiaries of the World Bank Group, which was established in 1945. As demonstrated in Chapter 3, there was a negative correlation between the share of these external loans and grants on the revenue side, and the share of investments in fiscal capacity (i.e. administration and infrastructure) on the expenditure side. Without suggesting that this proves a causality, the result is consistent with the theory on colonial finances that external (metropolitan) grants and loans reduced incentives to invest in fiscal capacity.

5. Limitations

Before coming to a final conclusion, there are a few limitations of this study that must be considered. First, one of the main arguments made in this thesis, is that the central Ethiopian state did not succeed in centralising the feudal system of control. A limitation of this analysis is that it is based on what is not observed on the central level, rather than what is observed on a decentral level. There is no direct evidence that regional and local rulers continued to raise revenue through traditional institutions. Although a number of reasons for the credibility of this argument are provided in the previous chapter, future research looking into developments on a decentral level may be needed to provide direct empirical evidence for the claim.

A related limitation is that this study does not take into account decentral revenue and expenditure, that was controlled by the central state but excluded from the central records. Eshetu (1984) points out the existence of provincial taxes proclaimed by the central government. The education tax, introduced in 1947, was based on rural land ownership and functioned to finance the elementary education in the province where it was collected. In 1970 it was revised to also include urban land ownership and personal income. The health tax was introduced in 1957 and was similarly intended to finance health services in the province where it was collected, based on ownership of rural land. These are however the only two cases of provincial taxes and expenses mentioned in the literature on fiscal centralisation and according to Eshetu (1984) they had a minor impact.

Concerning the comparison of expenses on 'order' to expenses on 'human resources', it is important to note that Frankema (2011) constructs the category 'human resources' as being representative of expenses benefiting the native population. In this regard, there is an important difference between Ethiopia and African colonial states. Where most of the salary expenses on administration, domestic security and the military in colonial states went to European public servants, these same expenses of the central Ethiopian state went to salary payments of Ethiopian public servants. As such, all salary expenses technically benefited the native population. However, the results show such a significant priority of sustaining control over investing in health care and education, that they are still telling about the priorities of the Haile Selassie government.

Finally, the scope of the statistical analysis of fiscal developments is limited to the last 25 years of the modern Ethiopian empire. This leads to two main issues in comparison. First, the patterns of revenue and expenditure described in the literature on the African colonial state are in part based on data from before 1940, whereas the data on Ethiopia to which it is compared dates from 1950 to 1974. The comparison is still useful however, as the purpose of it was to test if Ethiopia was able to avoid these patterns as a result of their independence (for which no evidence was found) and additional comparative data was used that aligns with the period of Haile Selassie's rule.

The second issue is that the period 1950-1974 does not entirely cover colonial rule in states that Ethiopia was compared to. Most states used in the sample became independent between 1955 and 1975. Ideally, to assess the difference between independent and colonial rule, the comparison would cover years where all states were still under colonial rule. There is no reason to believe that the fiscal capacity of the states changed significantly within the first years of independence. However, it clearly increased over the period as a whole following World War II, as colonial powers shifted their policies and increased investments in an attempt to silence the call for independence. As such, it would be interesting to track the development of fiscal capacity in colonial Africa back before World War II in, comparison to that of the central Ethiopian state.

6. Conclusion

The central Ethiopian state under the rule of Haile Selassie did not develop more effective fiscal institutions than African colonial states did. Comparative data on fiscal revenue relative to GDP suggests that the central Ethiopian state ranked among the bottom states in sub-Saharan Africa in terms of fiscal capacity, for six benchmark years between 1950 and 1974. The limited centralisation of revenue does not indicate a limitation of the Ethiopian feudal system, but rather a limitation of the central state to gain control over it. Instead, the central state relied largely on foreign trade taxes and external support for meeting its expenditure demands. These demands prioritised sustaining order over investing in the welfare of the population. The findings of this data analysis have four main implications.

First, effective fiscal centralisation did not take place under the Haile Selassie regime. The data suggests that feudal rulers were reluctant give up fiscal control. Although legislation may have demanded a uniform and centralised system of taxation, it is likely that, in practice, many facets of the traditional feudal system of taxation, including tax payments in grain and in labour, continued to exist.

Second, the lack fiscal centralisation indicates that a process of negotiating concessions between feudal lords and the central state never got far in Ethiopia. The Ethiopian nobility must have been aware of the imperial threats that faced their country and as such were willing to centralise, at least to a certain extent, their military power. However, the trade-off where the nobility gained rights to control central expenses, in return for fiscal control for the central state on the regional and local level, most likely never occurred in practice and was a mere legislative reality on both sides. As such, no significant institutions of accountable government developed under the rule of Haile Selassie, resulting in a state that heavily prioritised expenditure on sustaining order over expenses improving the welfare of its population.

Third, concerning the implication of the presented counterfactual for existing notions on the fiscal colonial state in Africa, the results of this study suggest that the credible threat of military violence was a more effective enforcer of fiscal centralisation than traditional authority was.

Finally, within the fiscal data of the Haile Selassie government, a negative correlation (R^2=0.86) was found between the share of fiscal capacity investments in total expenditure and the share of external support in total revenue, consistent with the notion that external support reduced incentives to invest in fiscal capacity. This suggests that independence from colonial rule did not automatically lead to independent development of fiscal institutions and perverse effects of external financial support should be attributed to international relations at large, rather than to colonial rule itself.

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    - 1963- *316.3 Eth*
    - 1964- *E313 CENs*
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    - 1966- *ABS.4*
    - 1967 and 1968- *ABS.5*
    - 1969- *ABS.6*
    - 1970- *316.3 ETH ABS* (*ABS.7)*
    - 1971- *ABS.8*
    - 1972- *ABS.9*

Appendix

Appendix 1: Fiscal Capacity of African States, Central Public Revenue per capita as a percentage of GDP per capita

-	1950	1953	1957	1962	1968	1974
Southern Africa						
Zimbabwe	8,7%	9,5%	4,5%	4,9%	9,2%	5,6%
West Africa						
Mauritania	4,4%	6,8%			8,5%	
Senegal	2,8%		4,8%	11,1%	10,4%	
Sierra Leone	2,5%	3,4%	5,6%	6,3%	7,0%	8,3%
Ivory Coast	2,4%		5,3%	10,8%	12,4%	14,0%
Ghana	4,5%	8,2%	7,2%	8,9%		
Togo	4,8%	6,2%	4,8%	5,7%	5,1%	7,6%
Nigeria	1,7%	2,2%	1,9%	2,1%	1,1%	7,6%
Niger	1,5%		3,5%			
Mali	1,8%	3,7%	3,9%	4,8%		12,6%
Regional av. (non-weighted)	2,9%	5,1%	4,6%	7,1%	7,4%	10,0%
Central Africa						
Chad		2,7%	2,5%	3,3%		5,2%
Central African Rep	3,4%	4,6%	3,6%	7,9%	10,2%	
Cameroon	4,3%	11,1%		8,6%	9,0%	
Gabon		2,9%	3,3%	7,1%		22,7%
Congo-Brazzaville		6,3%	6,8%	13,5%	16,2%	21,4%
Regional av. (non-weighted)	3,9%	5,5%	4,1%	8,1%	11,8%	16,4%
East Africa						
Mozambique	14,5%	16,0%	20,2%	19,6%	22,3%	17,6%
Malawi	2,5%	3,4%	3,0%	4,1%	5,2%	10,3%
Zambia	14,6%	25,8%	10,7%	8,0%	30,4%	47,0%
Tanganyika/U.R. of Tanzania	2,8%	3,4%	3,1%	2,8%	4,3%	5,5%
Kenya	4,1%	6,3%	6,1%	5,6%	6,8%	8,9%
Uganda	4,7%	7,0%	5,7%	4,3%	6,5%	5,0%
Regional av. (non-weighted)	7,2%	10,3%	8,2%	7,4%	12,6%	15,7%
Northeast Africa						
Sudan	4,5%	4,8%	4,9%	9,1%	9,2%	15,8%
Ethiopia	3,2%	2,7%	2,9%	3,5%	4,7%	4,6%

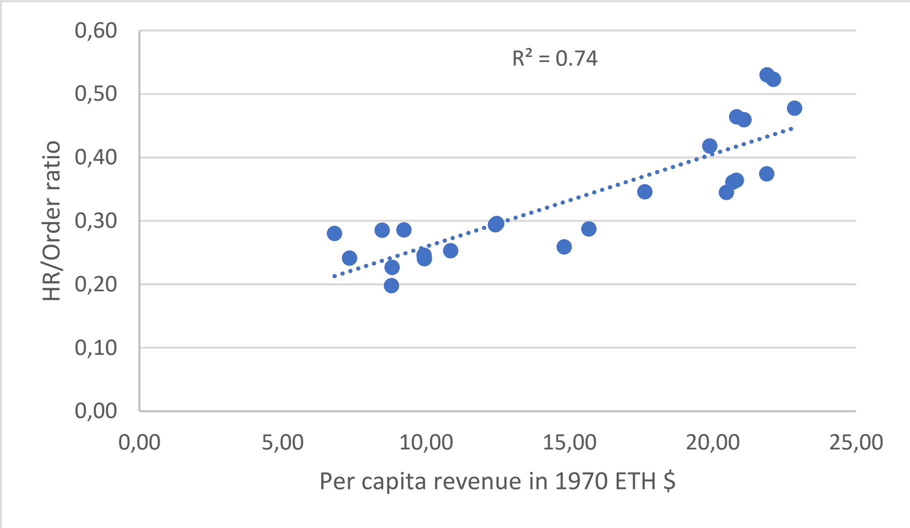
Source: See Figure 2.
Notes: Zambia's high fiscal capacity can largely be attributed to the income from the copper mining industry, which dominated the economy since 1928 and was nationalised in 1969 (i.e. Lungu, 2008).

Appendix 2: African states ranked according to Fiscal Capacity

	1950		*1953*		*1957*		*1962*		*1968*		*1974*	
	State	**FC in %**	**State**	**FC in %**	**State**	**FC in %**	**State**	**FC in %**	**State**	**FC in %**	**State**	**FC in %**
1	ZAM	14,6	ZAM	25,8	MOZ	20,2	MOZ	19,6	ZAM	30,4	ZAM	47,0
2	MOZ	14,5	MOZ	16,0	ZAM	10,7	CBR	13,5	MOZ	22,3	GAB	22,7
3	ZIM	8,7	CAM	11,1	GHA	7,2	SEN	11,1	CBR	16,2	CBR	21,4
4	TOG	4,8	ZIM	9,5	CBR	6,8	IVC	10,8	IVC	12,4	MOZ	17,6
5	UGA	4,7	GHA	8,2	KEN	6,1	SUD	9,1	SEN	10,4	SUD	15,8
6	GHA	4,5	UGA	7,0	UGA	5,7	GHA	8,9	CAR	10,2	IVC	14,0
7	SUD	4,5	MAU	6,8	SLE	5,6	CAM	8,6	ZIM	9,2	MAL	12,6
8	MAU	4,4	KEN	6,3	IVC	5,3	ZAM	8,0	SUD	9,2	MLW	10,3
9	CAM	4,3	CBR	6,3	SUD	4,9	CAR	7,9	CAM	9,0	KEN	8,9
10	KEN	4,1	TOG	6,2	SEN	4,8	GAB	7,1	MAU	8,5	SLE	8,3
11	CAR	3,4	SUD	4,8	TOG	4,8	SLE	6,3	SLE	7,0	TOG	7,6
12	**ETH**	**3,2**	CAR	4,6	ZIM	4,5	TOG	5,7	KEN	6,8	NGA	7,6
13	SEN	2,8	MAL	3,7	MAL	3,9	KEN	5,6	UGA	6,5	ZIM	5,6
14	TAN	2,8	SLE	3,4	CAR	3,6	ZIM	4,9	MLW	5,2	TAN	5,5
15	MLW	2,5	TAN	3,4	NGE	3,5	MAL	4,8	TOG	5,1	Chad	5,2
16	SLE	2,5	MLW	3,4	GAB	3,3	UGA	4,3	**ETH**	**4,7**	UGA	5,0
17	IVC	2,4	GAB	2,9	TAN	3,1	MLW	4,1	TAN	4,3	**ETH**	**4,6**
18	MAL	1,8	Chad	2,7	MLW	3,0	**ETH**	**3,5**	NGA	1,1		
19	NGA	1,7	**ETH**	**2,7**	**ETH**	**2,9**	Chad	3,3				
20	NGE	1,5	NGA	2,2	Chad	2,5	TAN	2,8				
21					NGA	1,9	NGA	2,1				

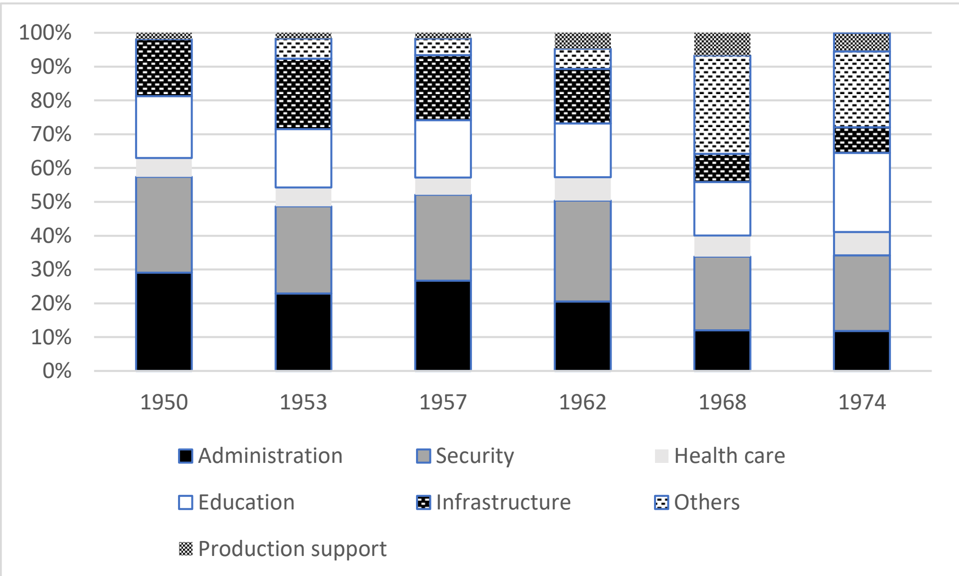
Sources: See Figure 2.
Codes: CAM=Cameroon, CBR=Congo-Brazzaville, ETH=Ethiopia, GAB=Gabon, GHA=Ghana, IVC=Ivory Coast, KEN=Kenya, MAL=Mali, MAU=Mauritania, MLW=Malawi, MOZ=Mozambique, NGA=Nigeria, NGE=Niger, SEN=Senegal, SLE=Sierra Leone, SUD=Sudan, TAN=Tanzania, TOG=Togo, UGA=Uganda, ZAM=Zambia, ZIM=Zimbabwe

Appendix 3: Correlation between central Ethiopian per capita revenue and the Human Recourses/Order-ratio, for the years 1950-1974



Source: Calculation based on revenue and expenditure data from 'Tabular Profile of Ethiopia's Public Revenue & Expenditure' (Ethiopian Ministry of Finance in, 1995). For the years 1950, 1953, 1957, population estimates of 'The Frankema-Jerven African Population Database 1850-1960, version 2.0' were used to calculate per capita public revenue. For the years 1962, 1968, 1974, World Bank (2017) data was used. The Consumer Price Index (CPI) was used to convert the data to real values. For the years from 1964 onwards, data from The World Bank was used. As no CPI for Ethiopia before 1964 is available, estimates have been made for the preceding years by averaging the CPI's of Egypt and Sudan (Mitchell, 2007).

Appendix 4: Distribution of public expenditure by source, excluding military expenditure and public debt, central Ethiopian government



Source: calculated based on data from 'Tabular Profile of Ethiopia's Public Revenue & Expenditure' (Ethiopian Ministry of Finance in, 1995).