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The Case of Ghana: A Third-World Development Analysis

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Abstract

The objective of this paper is to present a prototype developmental policy to the government of Ghana. Since the present developmental state of Ghana derives not only from the country's post-colonial experiences but the colonial as well, it is prudent for the purposes of clarity and coherence of facts to give an overview of the country's colonial and post-colonial experience.

Keywords

Africa

About *the author : For **Bernard Afrifa '94,** an economics major from Ghana, this paper was an opportunity to combine his personal knowledge of Ghanian politics with the tools of economic analysis learned in his Economics of Developing Countries class. Bernard is particularly interested in the impact of International Monetary Fund (IMF) and World Bank policies on the Developing countries and analyzed the impact of devaluation in Ghana for his senior project. Although he would like to branch off into a career in transnational law, he sees a major in economics as a great asset, having given him "a fundamental understanding of how things work." Bernard would eventually like to return to his country, "to be a part of the decision making process there."*

THE CASE OF GHANA — A THIRD WORLD DEVELOPMENT ANALYSIS

Bernard Afrifa

I. INTRODUCTION

Development entails so many things that any attempt to suggest developmental policies or strategies to any country would not only be an arduous task to undertake but tricky as well. In a way, for a student of Economics, there is the great danger in the tendency to set out a plan that may solely take into account the maximization of a nation's material welfare by analytical and conceptual tools of the discipline of economics. So, as much as it might be easy to tell a least developed country what to do to reduce, say, double-digit inflation rates, it is not that easy to come out with solutions for the myriad of problems that beset the least developed countries of the world. The response to any question to that effect is that most of the LDCs, in spite of having the worst of social and economic indicators, have some of the most fragile political systems. Their clout in the international political system is so feeble that at times they lie at the mercy of stronger powers. Historically, most of these countries were colonies of some stronger countries, and the colonial legacies leave much to be desired as cornerstones of development; this gives rise to an arduous and tricky task of forging a coherent developmental strategy that would take LDCs out of the cycle of underdevelopment.

The objective of this paper is to present a prototype developmental policy to the government of Ghana. Since the present developmental state of Ghana derives not only from the country's post-colonial experiences but the colonial as well, it is prudent for the purposes of clarity and coherence of facts to give an overview of the country's colonial and post-colonial experience.

II. Ghana's Trajectory Since 1960;

Ghana, at the time of British rule of this West African state, was known as the Gold Coast for the enormous amount of gold that attracted the European settlers. Gold was thus mined in the colony and shipped to the metropolitan country. All major infrastructural links in the colony were built with the objective of facilitating the transport of gold (and later cocoa, after it had been introduced in Ghana from Equatorial Guinea) to the shipping points of the country to Britain. The British colonial system of indirect rule which used indigenous elites as the intermediaries between the colonial government and the indigenous people gave rise to an educational system that perpetuated this relationship. The colonial education system which Ghana inherited was the kind that was intended to produce people who would safeguard the interest of the colonizers in that the system was fashioned to be the same one in Britain. Ghana, however, attained independence in 1957; and although the colonial legacy left much to be desired, Ghana was the richest Sub-Saharan country at the time of independence with a per capita income of $500 (in prices of 1983) (Malcolm Gillis & Co, p. 429). To some development economists, just as Ghana pioneered political independence from colonial masters in Africa, so it also pioneer a set of self-destructive economic policies which many more recently independent African countries have also followed. After only fifteen years of independence and before the aggravating factors that led to the economic implosion of the early 1980s, key features of a counter-productive development strategy were visible (Killick, 1978, p.185-208). Which counter-productive policies added to an already bad colonial legacy and ended Ghana's unhappy transition from a middle-income country to a low-income one in 1970s? It was in the 1970s that Ghana changed from a middle-income country to a low income country with Nigeria, the only African country to have made such a transition (ODI, 1988: p.4, Table 2).

The key feature of the counter-productive development strategy was the failure to provide adequate incentives for producers in the primary product sector which generates the bulk of the country's foreign exchange via exports. In Ghana's case this sector was, and still is, the cocoa sector. Using administrative machinery developed in the late colonial period ostensibly to stabilize cocoa producers' income from year to year, a permanent and sizeable wedge was driven between the world cocoa price and the price paid to the producers (Toye, p.151). This price wedge was composed of (a) internal marketing charges and (b) internal taxation of cocoa producers. The excessive size of this price wedge, going well beyond necessary minimum marketing costs and rates of taxation applied to other sectors, was the fundamental policy 'error.' The consequences for the economy could, however, have been mitigated in time if, when the overtaxation of cocoa producers had produced an investible surplus, that had been used to create profitable non-traditional export industries, or efficient domestic import-substitution industries. This is what the early regimes of Ghana did not do. What the first regime did after independence was allocate more government expenditures on health and education as the export prices of cocoa were buoyant. So the physical indicators of welfare all showed significant improvement: life expectancy and school enrollment went up and infant mortality came down, while the income generation needs implied by population growth still remained a problem for the future.

On the political side, the pattern of income distribution which the chosen economic policies brought about favored urban organized workers. The political economy of urban bias had a certain degree of stability until the economic malaise degenerated in the 1970s into an economic crisis.

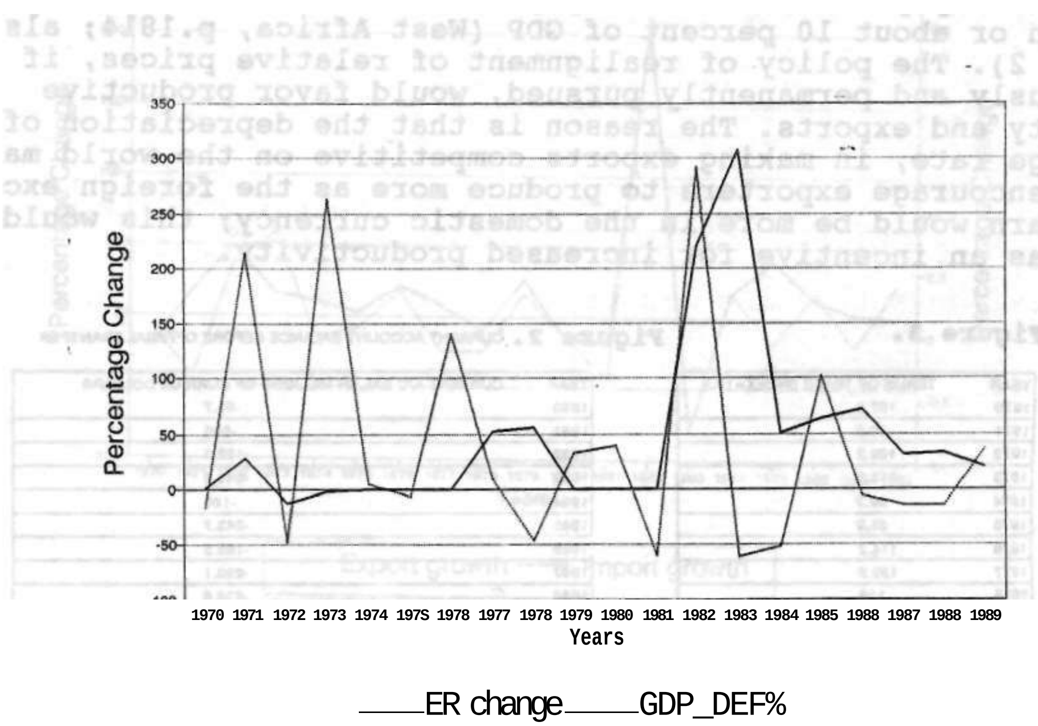


Figure 1. Exchange Rate/GDP Deflator Corelation

Figure 1. Exchange Rate/GDP Correlation
ER stands for the change in exchange rate; GDP% is the change in the GDP deflator. Data is computed from The International Financial Statistics, 1993.

Ghana's economic crisis starting during the 1970s was the main reason for the political instability between that period and the second advent of John-Jerry Rawlings[1]. The Economic Recovery Program (ERP) launched under the auspices of the International Monetary Fund and the World Bank by the Rawlings government entailed a strategy to remedy the problem of price distortion that had been ignored by previous governments. The realignment of relative prices, including the exchange rate, is a productive policy that should be continued and safeguarded. Before April 1983 when the ERP was launched, specifically from about August 1978, the exchange rate of the cedi was pegged to the US dollar and fixed at 2.75 cedis per dollar (International Financial Statistics, 1993). With Ghana's inflation rate exceeding average inflation trends in her main trading partner countries, the real effective exchange rate of the cedi appreciated by more than 400% between 1978 and 1983 (See Figure 1). The differential between the official and parallel market rates widened to.over 2000% by the end of 1982, with dire consequences for exports and the balance of payments; external payments rose to almost $600 million or about 10 percent of GDP (West Africa, p.1814; also see Figure 2). The policy of realignment of relative prices, if vigorously and permanently pursued, would favor productive activity and exports. The reason is that the depreciation of the exchange rate, in making exports competitive on the world market, would encourage exporters to produce more as the foreign exchange they earn would be more in the domestic currency; this would serve as an incentive for increased productivity.

Figure 3.

YEAR	TERMS OF TRADE (INDEX-100)
1970	107.2
1971	79.9
1972	102.2
1973	113.3
1974	99.3
1975	81.9
1978	114.2
1977	159.9
1978	~~139~~
1979	133.8
1980	100
1981	82.5
1982	74
1983	90.1
1984	98.9
1985	90.8
1986	87.5
1987	85.1
1988	78.2

Figure 2. CURRENT ACCOUNT BALANCE BEFORE OFFICIAL TRANSFER

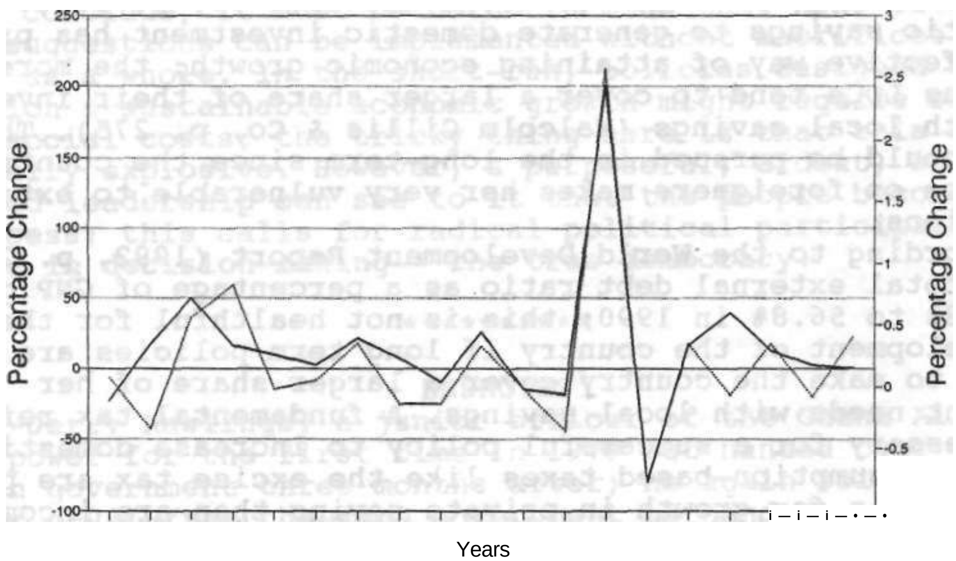
YEAR	CURRENT A/C BAL(IN MILLIONS OF CURR.US DOLLARS
1980	•53.7
1981	-508
1982	•192.3
1983	-248.3
1984	-180
1985	-243.7
1986	-185.5
1987	-220.1
1988	-236 6

Figure CURRENT ACCOUNT BALANCE AFTER OFFICIAL TRANSFER

YEAR	CURRENT A/C BAL (IN MILLIONS OF CURR.US DOLLARS)
1980	29.2
1981	-420.8
1982	-108.6
1983	-174.1
1984	-38.8
1985	-134.2
1988	-43
1987	-98.9
1988	-89.9

Data Source: World Tables, 1989.

The tricky aspect of the aforementioned policy is its effectiveness in equilibrating the. country's deficit in current account. The fact of the matter is relative price realignment results in increased productivity particularly in the export sector; but, the adequacy of such a policy in remedying the imbalance in the current account largely depends on the commodity terms of trade of the country. The commodity terms of trade refers to the ratio of the price index of a nation's exports to that of it's imports; then, if your terms of trade falls, it means you are getting less foreign exchange than you used to for every unit of good you export. Ghana's terms of trade has for some time now been declining (See Figure 3); the balance of payments deficit remains a problem even though relative prices have been realigned to those of her trading partners; increased exports are not doing much.



Export growth Import growth

Figure 4. Export Growth/Import Growth Correlation

In Figure 4, one can see that import growth is almost always ahead of export growth implying a deficit problem (Also see Figures 2 and 5). Part of the problem here may be attributed to the inelasticity of the demand for low-valued primary commodities that Ghana exports. Since Ghana is a major supplier of cocoa (major foreign exchange earner), any increase in the supply of the commodity leads to a drop in the world market price of the commodity. Thus, the productivity that the removal of price distortions in the economy brings about is not adequately rewarded in terms of price increases on the world market. This is a fundamental problem for most primary-commodity producers. A policy of adding value to the country's exports and differentiating them would be a step in the right direction in making demand for the exports fairly elastic. Also, the economy must be diversified so that external shocks would not adversely affect the economy as a whole. A word of caution here is that such a policy can only be realized in the long term and requires the country to put its house in good order in the form of giving adequate incentives to foreign exchange earners as against users and, reducing the budget deficits to stabilize prices and increase public sector saving.

A reduced rise in the general price level is a sure way of eliminating the negative interest rates that have been characteristic of the Ghanaian financial sector to enable it to mobilize enough funds from the private sector for development purposes. Ghana's domestic savings ratio is about 8-9 percent of GDP (World Development Report, 1992); this needs to be brought up; and one way to do that is for the country to work at recording positive interest rates which result in somewhat higher savings than negative ones (Malcolm Gillis & Co, p. 351). The use of domestic savings to generate domestic investment has proven to be an effective way of attaining economic growth; the more prosperous LDCs tend to cover a larger share of their investment needs with local savings (Malcolm Gillis & Co, p. 275). This policy should be pursued in the long-term since the country's dependence on foreigners makes her very vulnerable to external machinations.

According to the World Development Report (1992, p. 264), Ghana's total external debt ratio as a percentage of GNP grew from 31.8% to 56.8% in 1990; this is not healthful for the long term development of the country if long term policies are not designed to make the country cover a larger share of her investment needs with local savings. A fundamental tax reform is also necessary for a successful policy to increase domestic savings. Consumption-based taxes like the excise tax are probably more favorable for growth in private saving than are income-based taxes like the personal income tax; so, the tax reform must incorporate them more fully.

The education of a populace provides the necessary training for them to manage, protect, and improve their institutions and resources to the benefit of development. The colonial educational system that Ghana has inherited has to be tailored to the present needs. More emphasis has to be placed on the training of technicians and technocrats; this requires adequate budgetary allocation for science and business-management education. Policies[2] that encourage foreign direct investment of corporations that would be willing to incorporate and train locals must be adopted. Also, there must be a national effort at morally soliciting Ghanaian Professionals in other countries to offer their voluntary services over specified periods to make up for the subsidized education that every Ghanaian has had until recently. The National Service scheme which requires every high school and college graduate to serve the nation for a period of two years must be continued. However, the orientation of the program must be geared more to the education of population on the need for population control. Ghana's population growth of 3.3% (World Development Report, 1992) is one of the highest in sub-Saharan Africa. The country needs a 3% growth rate just to deal with population; Ghana's 4.4% (World Development Report,1992) annual growth rate does not allow for such a high rate of population growth in as much as the growth of the economy has to make allowances for import expansion and savings.

Urban-biased policies of past governments must be curtailed to the greatest degree. Subsidies on health care and other social welfare programs should be made more available in the rural areas where more than half of the total population live. This is because the rural populace is at the locations from which the nation's foreign exchange-earning activities as well as food production are; any deterioration of conditions in these parts of the country jeopardizes the production of these goods as the efficiency of production falls from bad social conditions.

To conclude, it must be borne in mind that none of these policy-suggestions can be implemented without sacrifices from the society as a whole. In the short-run, policies designed to give the nation a sustainable economic growth might require some severe social costs; the tricky thing here is that this could be politically explosive. However, a purposeful, ardent, and committed leadership can see to it that the people become part of the process; this calls for radical political participation of everyone in decision-making— the true democracy.

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ENDNOTES

1. John-Jerry Rawlings, a junior officer of the Ghana Air Force seized power for the first time in 1979 but handed over to a civilian government three months after; he again seized power in December, 1981 from the same government he handed over to in 1979. He is now President of the fourth republic. The Economic Recovery Program was launched while he was the unconstitutional head of state in 1992.

2. The best policy to be adopted for this end is the deregulation of the economy so that resources may be used in the most efficient way; foreign investors are attracted to an economy where the profitability of their investments is certain to a greater extent.

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