Growth Working Paper No. 7

Explaining African Economic Growth Performance: The Case of Ghana

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Paper (Final Report?) Prepared for the African Economic Research Consortium
Research Project on "Explaining African Economic Growth Performance"

Revised: May 2002

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1. INTRODUCTION

It was fairly common in the 1980s and early 90s to read commendations of Ghana's recent economic growth achievements. Leechor (1994) described Ghana as a frontrunner in the economic reform process, and Ghana was regularly put forward by the Bretton Woods Institutions (BWI) and others as a showcase of success in Africa. But there was a bit of irony to it in the sense that while this was happening, many Ghanaians showed little appreciation of that growth achievement (Aryeetey and Tarp 2000). A possible explanation for this lack of appreciation could have been a certain sense of *déjà vu*, having seen considerable admiration from the rest of the world for being the first African country to become independent from colonial rule in 1957, and experiencing rapid growth soon thereafter, an admiration whose import fizzled out sooner than it had begun. Another possible reason for the perceived lack of appreciation was the likelihood that the measured growth figures had little meaning for the livelihoods of people. This is a point that has recently been explored by Kanbur (2001). He asks the question "How can people with seemingly the same ends disagree so much about means, and how can seemingly the same objective reality be interpreted so differently?". Obviously, the growth of an economy needs not mean the growth in income for most of the people, but should they not 'feel' that there has been growth in the economy? A recent twist to the discussion is provided by a questioning of the measured growth figures. Ravi Kanbur (2001) wonders why "people are not dancing in the streets" if the economy has seen growth in the region of 4%-5.5% for almost two decades. This paper will attempt to explain why the measured growth in Ghana has raised questions in the minds of the people.

But it will go beyond that. It will seek to show why the measured growth of the early years of reform did not pick up pace after the initial period of significant growth. In this regard it will show that the growth achievements in the period of reforms were not dramatically different from earlier achievements in the 1960s. Some effort will be made to explain that by looking at the micro level evidence of policy outcomes. What this is expected to show will be aggregated into the macro picture of initial good performance and a slack as a result of structural constraints within the production and social environments.

It is indeed relevant to point out that in Aryeetey, Harrigan and Nissanke (2000), there is consensus among the authors that while Ghana's growth record after reforms highly commendable, it was not unique to that period. Indeed a not-too-different achievement had been recorded under an entirely different set of economic policies in the early part of the 1960s. What both occurrences also had in common was the fact that the trend of increasing growth was not sustained.

The fact that sound reforms have been followed by relatively low growth returns in the medium term is also not unique to Ghana. In a recent piece by William Easterly (2001) he shows that despite the fact that there has been considerable liberal reform in developing countries in general, the growth outcomes have been far less than expected. He notes that in the period 1980-98 median *per capita* income growth was 0.0% when it had been 2.5% in 1960-79. This happened despite the improvements in policies on financial depth and overvaluation of currencies. This was also at a time when the initial conditions of health and education, as well as fertility and infrastructure generally improved. Easterly speculates that other developments in the world such as OECD interest rate developments, the debt situation, the slowed growth of OECD countries, and the skill-biased technical change may account for the poor growth in developing countries.

For Ghana, Aryeetey and Tarp (2000) have argued that the growth of the 1980s came about as a result of the expansion of capital application, largely as a consequence of increased aid inflows, which was similar to the expansion that occurred in the 1960s financed largely through accumulated reserves from the 1950s. In both cases the increased use of capital was not always accompanied by significant improvements in total factor productivity. In both instances, the injection of capital came after long periods of relatively high capital depreciation. Again in both instances, the initial high growth rates could not be sustained into the medium-term because the policies were not anchored in appropriate all-embracing development frameworks. The first attempt sought to deny the market its place while the second attempt was with weakened state structures that were unable to deliver outcomes in a timely and adequate manner.

What is also important for Ghana is the fact that the recent growth record is deemed inadequate for the desired transformation of the economy. Ghana set itself the target of becoming an upper middle income country by 2020. To achieve the target *per capita* income by that year, it was reckoned using a using a simple Harrod-Domar model, that the economy needed to grow, on average, at 8% for the period to achieve the goal. In the five years since these targets were set, the economy has not shown a capacity to move towards the target. The performance of the economy and economic growth have indeed been characterised by the non-attainment of macroeconomic targets. In particular, whereas the GDP was expected to grow between 7.1% and 8.3% in the period 1996-2000, actual growth was between 4.2% and 5.0%. The significant deviation between targets and actuals was translated into *per capita* GDP growth, and reflected sectoral growth. The situation of deviations from target is best reflected by developments in 1999 when all macroeconomic targets were off by rather significant margins, and the trend continued into 2000. The macroeconomic targets that were set for 1999 included a real GDP growth of 5.5%, an end-of-period inflation of 9.5%, an overall budget deficit of 5.2% of GDP, a primary budget surplus equivalent to 3.8% of GDP, and an overall balance of payment surplus of US$60 million. The overall growth was based on a projected growth of 5.6% in agriculture, a 6.3% growth in industry following full availability of energy and a growth of 5.3% from the services sector. The growth rate for GDP turned out to be a more modest 4.4%. The agricultural sector grew by only 3.9%, industry by 4.9% and services by only 5%. Inflation at the end of the year was far higher than the expected figure at 13.8%, with a budget deficit of 8.2% of GDP. The primary balance was only 1.8% of GDP while the current account balance showed a deficit of $93.5 million. By the end of 2000, inflation stood at 40.8% compared with the end-of-year target of less than 10%. The Cedi had nominally depreciated by almost 100% in 2000.

This paper is an attempt to explain the observations that we make above. It has the following structure: In section 2, we discuss “macroeconomic policies and economic growth” which allows us to present the growth record of Ghana and attempt to explain it in light of the Collins-Bosworth characterisation of African growth. We also discuss the macroeconomic policies that produced the growth. Observing that Ghana’s economic history can be broadly placed into two distinct periods that reflect major policy regimes, that is, interventionist and liberal, we discuss in section 3 the micro factors underlying the macro structure that we saw earlier for the interventionist period (1960-1982). This takes us through a consideration of specific policies and how they affected the market structure and institutions of the economy. This includes the political economy situation underlying policies and their outcomes. We repeat this analysis in section 4 for the liberal policy regime. Section 5 concludes our attempt to explain the growth record of Ghana.

2. MACROECONOMIC POLICIES AND ECONOMIC GROWTH

Major reviews of economic performance in Ghana (See various chapters in the volume edited by Aryeetey, Harrigan and Nissanke) have attributed the recent growth after reform to the rapid expansion of capital after years of little accumulation, with some inconsistent role assigned to productivity growth. This is consistent with the Collins and Bosworth (1996) finding for Africa. The growth of capital itself has had its source from largely public sources, a fact that has significant implications for its productivity. The review below will show the nature of macro policies that led to major infusions of public capital at specific periods. In this section, we first consider the growth record, try to account for it and then explain it with the relevant macroeconomic policies and then finish with a discussion of the structure of the economy.

2.1 An Overview of Long-Run Economic Performance

The Growth Record

The growth record of Ghana has been one of unevenness, as Table 2.1 and Figure 2.1 clearly indicate. With a reasonably high GDP growth in the 1950s and early 1960s, the Ghanaian economy began to experience a slowdown in GDP growth in 1964. Growth was turbulent during much of the period after the mid-1960s and only began to stabilise by 1984. In 1966, 1972, 1975-1976, 1979, 1980-1983, the growth rate was negative. The years in which negative growth was experienced generally coincided with changes in government and sometimes with policy changes or reversals.

Negative growth was first recorded at the time of the first coup d'etat in 1966, with a forceful transfer of authority from the dictatorial Nkrumah regime to the military.

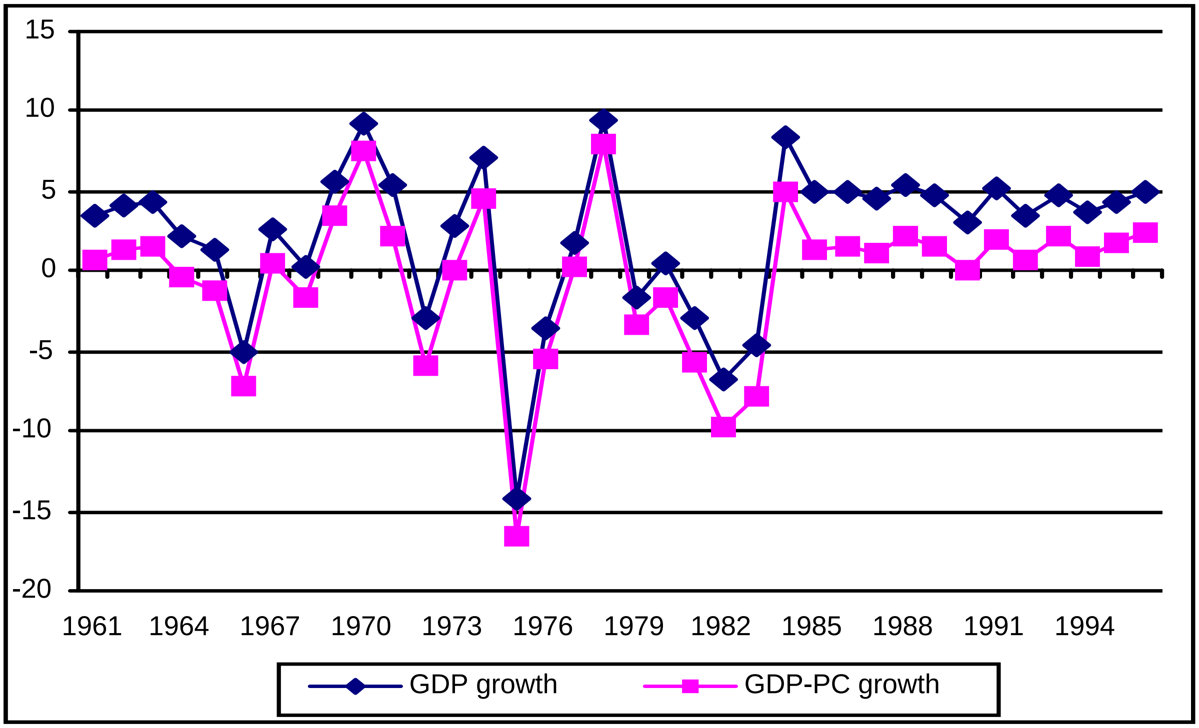
The lowest growth of -14% was experienced in 1975, coinciding with the oil-supply shock, as well as a policy reversal from a market-oriented stance to an inward-looking protectionist regime. The period of turbulence, however, also had positive growth episodes, with the highest peak rate reaching 9% in 1970 and 1978.

Table 2.1: Real GDP growth (GDP87G) and real *per capita* growth (PCGDP87G)

Year	GDP87G	PCGDP87G	Year	GDP87G	PCGDP87G
1960					
1961	3.372178	0.726942	1979	-1.67998	-3.39927
1962	4.026976	1.380429	1980	0.558622	-1.69838
1963	4.311648	1.652135	1981	-2.98105	-5.64543
1964	2.185294	-0.47121	1982	-6.71132	-9.71208
1965	1.359698	-1.27939	1983	-4.54785	-7.84499
1966	-5.11332	-7.19567	1984	8.386862	4.865695
1967	2.613635	0.561452	1985	4.969483	1.322152
1968	0.358723	-1.72456	1986	4.996393	1.469775
1969	5.562385	3.497996	1987	4.538072	1.131599
1970	9.22475	7.503496	1988	5.381699	2.101763
1971	5.30457	2.29853	1989	4.807684	1.652715
1972	-3.02587	-5.9251	1990	3.009284	-0.02901
1973	2.856772	0.157698	1991	5.121066	2.035341
1974	7.076138	4.624545	1992	3.532426	0.627711
1975	-14.333	-16.5329	1993	4.686309	2.1102
1976	-3.55532	-5.44882	1994	3.638739	0.963487
1977	1.807158	0.282376	1995	4.328839	1.743674
1978	9.377848	7.963121	1996	4.926395	2.307347

Source: Computed from World Bank data

Figure 2.1a: Real GDP growth and *per capita* growth
Source: Computed from World Bank data

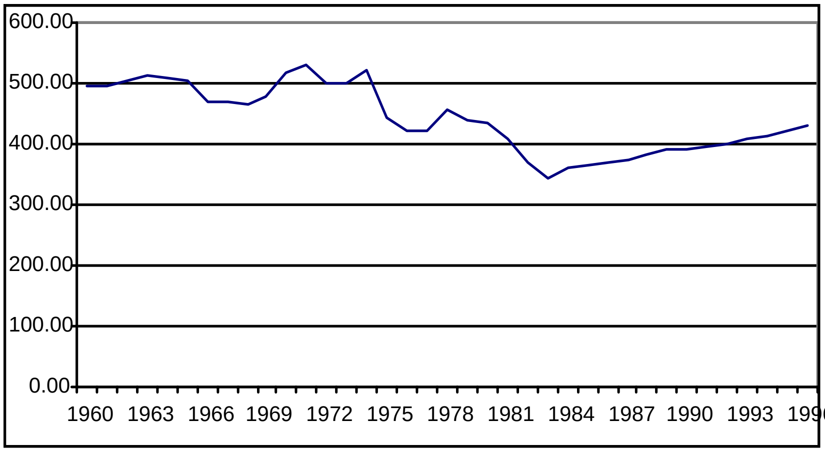


The first phase of reform, marked by the adoption of a stabilisation programme, Economic Recovery Program (ERP), with major support from the International Monetary Fund (IMF) and the World Bank, was instituted in April 1983, with implementation over 1983-1986. The ERP, a market-oriented programme, was intended to halt the downward economic spiral. Starting in 1986, the second phase of reform saw ERP being supplemented with the Structural Adjustment Programme (SAP), geared toward correcting a number of structural imbalances in order to engender a sustained healthy economic growth.

The economy definitely responded positively to ERP/SAP soon after inception. It recovered from its negative growth rate of about 5% in 1983 to a hefty positive rate of 8% in 1984. The favourable growth has continued since that time, with relatively little variance, even if there is a slight slowdown in the rate of growth since 1990.

The growth record, based on *per capita* income, is similar to that of the GDP illustrated above. As Figure 2.1a shows, *per capita* GDP growth closely tracks that of GDP, suggesting that population growth has been rather stable, though the larger gap between them since the 1980s suggests an acceleration in population growth over this period.

Figure 2.1b: Real per capita GDP in 1987 US Dollars



Per capita GDP generally maintained its value at about $500 until about 1975 when its downward trend began, hitting a low of $344 dollars in 1983 (Figure 2.1b). Its upward trend began in 1984, however, after the initiation of ERP and has continued to the present, reaching nearly $430 in 1996. While this is still lower than its previous peak of $513 in 1963, it is certainly far, by nearly $100, above its nadir in 1983. What is important to remember, however, is the fact that the observed is considerably less than is required to achieve national growth objectives.

Structure of the Economy

Sustained economic growth would normally be accompanied by major structural transformation of the economy. The current and historical pattern of the Ghanaian economy portrays hardly any structural changes. This is also supported by the analysis of Killick (2000) and also of Round and Powell (2000). As Table 2.2 shows, the structure of the economy in the 1990s indicated a shift in dominance from agriculture to services, with little change in the share of industry. While a shift toward a higher-order service could be considered as a positive sign for a possible take-off, this is generally seen as less of a structural change than an indication of the direction of new short-term capital flows to mark the end of stagnation. Indeed, much of the increase in services derives from the relatively low-order sector, Wholesale, Retail, Restaurants and Hotels, whose share as a proportion of GDP increased from 13% in 1989 to 17% in 1996 (ISSER 1997). Meanwhile, the share of manufacturing has remained about the same. Although the reforms seem to have halted the decline in the manufacturing sector, which reached an abyss of 7.4% of GDP in 1982, manufacturing growth appears to have fallen substantially during the latter part of the reform period. Indeed, of the four sub-sectors shown in Table 2.2, manufacturing experienced the slowest growth, at a rate of 3% during 1990-1996.

Table 2.2: Trends in the structure of the Ghanaian economy

A.: **SECTORAL DISTRIBUTION OF REAL GDP**

PERIOD AVERAGES (%)

	1970-75	1976-82	1983-86	1987-90	1991-95
Agriculture	52	51	52	46	42
Industry	19	17	12	14	14
Services	29	32	36	40	44

Source: Calculated from Statistical Services *Quarterly Digest of Statistics*, various issues, ISSER (1996).

B. Industry and sub-sectors, % GDP (% Industry in parentheses)

	Industry	Manufacturing	Mining and quarrying	Electricity and water	Construction
1981	15.2 (100)	10.9 (71.6)	1.2 (8.1)	1.0 (6.6)	2.1 (13.8)
1982	12.6 (100)	7.4 (56.1)	1.2 (9.7)	0.9 (7.1)	3.0 (24.1)
1985	13.0 (100)	8.5 (65.3)	1.2 (8.9)	0.9 (6.6)	2.5 (19.2)
1990	14.5 (100)	9.2 (63.2)	1.3 (9.1)	1.3 (9.2)	2.7 (18.6)
1996	14.2 (100)	8.1 (56.9)	1.5 (10.5)	1.6 (11.1)	3.1 (21.5)

Source: Computed from Statistical Services, Quarterly Digest of Statistics; ISSER

C. Growth rates of industry and sub-sectors (%)

	Industry	Manufacturing	Mining and quarrying	Electricity and water	Construction
1981-83	-12.5	-15.6	-10.2	-10.4	10.1
1984-89	9.7	10.6	8.3	20.2	5.1
1990-96	4.1	2.6	6.8	8.5	6.6

Source: Computed from Statistical Services, Quarterly Digest of Statistics; ISSER

D. Manufacturing exports (% total exports)

1970-79	3.87
1980-84	5.65
1985-89	8.77
1990-94	18.24

Source: Derived from World Bank data

Manufacturing Exports and Diversification

While the above trends may not be encouraging, there appears to be a silver lining in the manufacturing exports data, possibly pointing to increased competitiveness of

Ghana's slimmer manufacturing sector. For example, the share of manufacturing in total exports increased from less than 5% in the 1970s to 9% in 1985-89, and to over 18% in 1990-94 (Table 2.2). Note that manufacturing exports comprise: chemicals and related products, basic manufactures, machinery and transport equipment, other manufactured articles and goods not elsewhere classified, excluding non-ferrous metals. Thus gold is not included in this classification, and the observed phenomenal increase in the share of manufacturing exports cannot be attributed to the dramatic increase in gold exports since the mid-1980s, for example.

It is not exactly clear why the manufacturing sector is declining over time, yet there appears to be a considerable upward trend in the manufacturing contents of exports. A possible explanation is that while non-competitive products of the manufacturing sector have withered away with increased competition from liberalisation, the remaining manufacturing export firms may have become relatively competitive. This situation is consistent with the phenomenon of 'market selection' observed for a number of African manufacturing firms (Gunning and Mengistae 2001).

Apparently, within the realm of 'de-industrialisation'[1] is an element of burgeoning activity of manufacturing competitiveness. Perhaps, that activity is embryonic, but if the increasing share of manufacturing in exports is sustained or improved, it should bode well for a sustained growth of the economy, given the potency of manufacturing exports in the growth-export relationship (Fosu, 1990).

2.2 Accounting For Ghana's Growth

We first present a relatively simple growth accounting model in the form of a Cobb-Douglas production function. The model estimated over 1961-96, using annual data, is specified as follows:

$$q = \alpha + \beta l + \delta k + d + \varepsilon,$$

where
q is GDP growth
l is labour growth
k is growth in capital (measured as investment to GDP ratio)
d is a dummy variable representing economic liberalisation (d = 1 from 1969-72 and 1983-96; d = 0 from 1961-68 and 1973-1982
ε is the error term

The results of the estimation, admittedly crude, indicate that most of GDP growth seems to be accounted for by factors outside of the model (Table 2.3). The results show that the only significant variable is the economic liberalisation dummy variable, which has a positive coefficient. Growth in labour or capital has, according to the model, not

[1] We discuss in section 4 trends in industrial growth and argue that there is no real sign of de-industrialisation yet.

significantly contributed significantly to GDP growth, though the estimated coefficient of the investment variable is positive.

The results suggest that total factor productivity (TFP) may have played a more important role in the observed pattern of GDP growth, and that TFP is affected by economic regimes. In particular, liberal regimes apparently positively contribute to TFP and to growth.

Table 2.3: Growth equation results

Dependent variable: GDP Growth				
Independent variables:	Constant	Investment/GDP	Labour Growth	Dummy
Coefficient	-0.056771	19.35096	-123.0872	4.720793
t-statistic	-0.012757	1.050417	-0.962469	2.840096
R-squared	0.227276			
Adjusted R-squared	0.154833			

Second, we consider the Collins and Bosworth-type growth accounting results presented in O'Connell and Ndulu (2000) on the decomposition of *per capita* growth in Ghana during 1960-97. Table 2.4 reports these estimates, as well as those for SSA for purposes of comparison. During the overall 1960-97 period, output per worker declined by 0.12% in Ghana. At the same time, growth in factor accumulation, measured by physical capital per worker, accounted for 0.52%, and education per worker for 0.50%; however, this positive contribution by physical and human capital was more than offset by the negative contribution of total factor productivity (TFP), measured as the residual, of 1.15%. Thus, overall, the slow rate of *per capita* income growth in Ghana over the 1960-1997 period seems to be largely attributed to productivity rather than to production inputs.

Table 2.4: The Collins and Bosworth Growth Accounting-Based Decomposition of Sources of Growth, Ghana vs. [SSA]

Period	Growth in Real GDP per worker	Contribution of		
		Physical capital per worker	Education per worker	Residual
1960-64	1.56 [1.26]	3.02 [0.86]	0.49 [0.14]	-1.96 [0.26]
1965-69	-0.28 [1.60]	0.94 [1.03]	0.78 [0.18]	-2.01 [0.39]
1970-74	2.41 [2.29]	0.40 [1.22]	0.20 [0.20]	1.81 [0.87]
1975-79	-4.22 [-0.10]	-0.13 [0.81]	0.23 [0.27]	-4.32 [-1.18]
1980-84	-3.94 [-1.28]	-0.93 [0.41]	0.66 [0.30]	-3.66 [-1.99]
1985-89	2.32 [0.64]	-0.40 [0.06]	0.72 [0.30]	2.01 [0.28]
1990-97	1.27 [-1.55]	0.75 [-0.14]	0.41 [0.18]	0.11 [-1.59]
Total: 1960-97	-0.12 [0.41]	0.52 [0.61]	0.50 [0.23]	-1.15 [-0.42]

Comparatively for SSA as a whole, output per worker over the overall 1960-97 period increased by 0.41%, of which physical capital and education contributed 0.61%

and 0.23%, respectively, while TFP's contribution was negative at -0.42%. Thus, over the entire period, per capita growth was much smaller in Ghana than in SSA, the contribution to growth by physical capital slightly smaller, and productivity declines substantially larger in Ghana. The only dimension where Ghana apparently performed better than SSA was, therefore, in the area of education, where the contribution to growth was about twice as large. This outcome may be attributable to the comparatively large investment in education made by Ghana after independence.

As Table 2.4 further indicates, the half-decade decompositions suggest a non-uniform pattern over the period. While the periods of 1960-64, 1970-74, and 1985-97 show considerably positive growth rates, growth was substantially negative for 1975-84. This pattern differs somewhat for SSA as a whole, though, according to Table 2.4. For example, in 1965-69, Ghana's growth was negative as compared with a positive rate for SSA; however, during the more recent 1990-97 period, Ghana exhibits a positive growth rate, while SSA's growth is negative. In effect, explanations for Ghana's growth performance are likely to differ from those of SSA as a whole.

The relatively strong growth in Ghana during the earlier 1960-64 period was explained mainly by physical capital accumulation, while that in 1970-74 was due to TFP. The decline in growth in 1975-84 was accounted for primarily by TFP; however, there was some disinvestment as well. When growth picked up during 1985-89, again the explanation was a positive TFP growth. The contribution of physical capital took over during the subsequent 1990-97 period, while the role of TFP, though still positive, waned substantially. Meanwhile, the role of education seems to be relatively uniform. Its contribution remains positive throughout the entire period, though it is rather low in 1970-79.

Comparatively, on the whole, Ghana appears to have performed worse than the SSA average during the earlier 1965-84 period, and better in the more recent 1984-97 period, in terms of output per worker growth, the contribution of physical capital per worker and the contribution of TFP to that growth. The contribution of education per worker, on the other hand, was higher than the SSA average throughout 1960-97.

These results also support the earlier ones based on the simple model that TFP contributed primarily to the observed pattern of economic growth in Ghana, and that a driving force of TFP might be the nature of the economic regime. For example, the periods 1970-74 and 1985-97 when per capita GDP growth was relatively robust also corresponded roughly to the more liberalized economic periods.

Sectoral Patterns

Based on the Chenery/Syrquin model involving initial income and population, O'Connell and Ndulu (2000) provide sectoral estimates for Ghana, as well as for other SSA countries. These results are presented in Tables 2.5a and 2.5b. According to the results, the size of the agricultural sector in Ghana is under-predicted, while that of the service sector is over-predicted, given initial income and population. That is, the size of the agricultural sector is larger than expected, and the share of service is smaller than predicted. On the other hand, the size of the manufacturing or industrial sector is roughly as expected.

The results show, for example, that the actual share of agriculture in GDP between 1960 and 1997 was 45%, while the predicted share was 29%. This large discrepancy between the actual and fitted values is an indication of the slow nature of structural transformation in Ghana's agricultural sector. Furthermore, according to Table 2.5a, the greatest increase in this discrepancy occurred between the periods 1975-79 and 1980-84 when substantial declines in TFP occurred. Meanwhile, the largest decrease in the discrepancy was between 1980-84 and 1985-89 when there was a major increase in TFP. In addition, the manufacturing share appears to have reached a peak in 1975-79; it fell precipitously between that period and 1980-84, before recovering subsequently in the ensuing periods. Similarly, as Table 2.5b shows, manufacturing began its under-performance during the early 1980s, with some recovery in the latter part of the 1980s. Unfortunately, the 1990s indicate continued under-performance, though at a somewhat lower rate than between 1980-84 and the immediately following half-decade.

Table 2.5a: Actual and Predicted Sectoral Shares, Ghana

	Agriculture's share in GDP				Industry's share in GDP				Services, etc. share in GDP			
Period	* In	Actual share, ay95	Fitted share	Residual	* In	Actual share, ay95	Fitted Share	Residual	* In	Actual share, ay95	Fitted share	Residual
1960-64	0		32.23		0.0		23.56		0.0		44.21	
1965-69	1	44.30	31.46	12.84	1.0	29.59	23.38	6.20	1.0	26.11	45.16	-19.04
1970-74	1	46.28	27.80	18.48	1.0	29.95	25.68	4.27	1.0	23.77	46.51	-22.74
1975-79	1	43.38	29.06	14.33	1.0	31.29	23.56	7.73	1.0	25.33	47.38	-22.06
1980-84	1	50.39	27.14	23.25	1.0	22.02	24.20	-2.18	1.0	27.59	48.66	-21.07
1985-89	1	45.87	29.47	16.40	1.0	23.00	21.23	1.77	1.0	31.13	49.30	-18.17
1990-97	1	39.52	26.42	13.10	1.0	24.28	23.21	1.07	1.0	36.19	50.37	-14.17
Total	.9	44.96	29.08	16.40	0.9	26.69	23.55	3.15	0.9	28.35	47.37	-19.54

*Equals 1 if observation is in regression sample, 0 if otherwise.

Table 2.5b: Actual and Predicted Sectoral Shares, Ghana

	Manufacturing's share in GDP	Agriculture's share of the labor force	Ratio of ALP in non-agri to A agriculture

Period	* In	Actual share, ay95	Fitted share	Residual	* in	Actual share, ay95	Fitted Share	Residual	* In	Actual share, ay95	Fitted share	Re
1960-64	0		11.18		1.0	62.70	53.40	9.30	0.0		6.59	
1965-69	1	11.72	11.35	0.36	1.0	61.31	50.86	10.44	1.0	1.99	5.97	-3
1970-74	1	12.47	12.35	0.12	1.0	60.67	48.00	12.67	1.0	1.79	6.08	-4
1975-79	1	13.73	11.63	2.10	1.0	61.19	46.26	14.93	1.0	2.07	5.03	-2
1980-84	1	9.03	11.88	-2.86	1.0	61.06	44.03	17.03	1.0	1.55	4.77	-.
1985-89	1	10.06	11.02	-0.96	1.0	59.97	42.18	17.78	1.0	1.77	3.40	-1
1990-97	1	9.58	12.30	-2.72	0.0		38.76		0.0		3.19	
Total	.9	11.10	11.67	-0.66	0.9	61.15	46.21	13.69	0.7	1.84	5.00	-3

*Equals 1 if observation is in regression sample, 0 if otherwise.

2.3 Cross-Country Growth Regression Estimates

Augmented Solow Model

Based on Hoeffler's [1999] augmented Solow model, Ndulu and O'Connell [2000] present growth-accounting results for a number of SSA countries. Those for Ghana are reported in Table 2.6. We note that the growth and residual patterns over 1960-97 are generally similar to those earlier presented based on the results reported in Table 2.4; however, the use of the logarithmic difference between the *initial* and *final* years of the period changes the current pattern somewhat, as compared to the previous estimates which were based on the half-decade *averages*. In addition, during 1960-97, we find that the average per capita growth is less than the average for the sample of countries consisting of both OECD and non-OECD countries used in the estimation. It is interesting to note that the only periods where Ghana's growth rate exceeded the sample average were in 1965-69 and 1985-89, though the estimate for the more recent 1990-97 was about the same as the sample average for the same period. The result for the earlier period is likely attributable to the substantial increase in growth following the economic liberalization undertaken in the late 1960s following the coup of 1966. The latter positive differential, albeit small, is coincident with the period of structural adjustment. In contrast, the periods of 1960-64, 1970-74 and 1980-84 were exhibited rather large negative growth differentials. These periods roughly corresponded to control, petroleum-supply shock, and control regimes, respectively.

The results from Table 2.6 also reveal that, over the entire period, under-investment consistently explained the greatest portion of the growth differential between Ghana and other countries; meanwhile, income convergence, as represented by Ghana's smaller initial income, consistently lowered the growth differential. Replacement investment also contributed to a widening in the gap, though TFP as represented by the residual seems to have lowered the gap somewhat, with much of that occurring in the most recent decade of structural adjustment. Meanwhile, except for the earlier decade, initial educational attainment exhibited little explanation of the growth differential, suggesting that Ghana's educational attainment became increasingly comparable to that of the other countries.

Table 2.6: Fits and Residuals from SYS-GMM Estimation of Hoffler's Augmented Solow model, Ghana

Period					Estimated contribution of:						
	* In	Actual growth	Pre-dicted growth	Resid-ual	Actual deviation of growth from sample mean	Initial income	Invest-ment	Initial educational attainment	Replacement investment term	Time dummies	Residual
1960- 64	1	-0.25	2.34	-2.59	-2.18	3.02	-1.88	-0.28	-1.03	0.60	-2.61
1965-69	1	3.64	2.29	1.34	1.70	3.06	-3.15	-0.25	0.09	0.63	1.32
1970-74	1	-2.94	-0.69	-2.26	-4.88	2.51	-4.28	0.00	-0.76	-0.06	-2.28
1975-79	1	1.31	0.39	0.92	-0.62	2.95	-5.01	0.00	0.27	0.26	0.90
1980-84	1	-4.18	-4.93	0.75	-6.11	2.76	-6.79	0.01	-1.37	-1.44	0.73
1985-89	1	2.60	-1.14	3.74	0.67	3.39	-5.14	0.02	-1.43	0.10	3.72
1990-97	0	1.91	-0.07	1.98	-0.02	2.99	-4.76	0.02	-0.84	0.60	1.96
Total	.9	0.30	-0.26	0.56	-1.64	2.95	-4.43	-0.07	-0.72	0.10	0.53

* Equals 1 if the observation is in the regression sample, 0 if otherwise.

Pooled Conditional Model

Ndulu and O'Connell [2000] also estimate a pooled conditional model, where political instability and policy variables as well as base variables (life expectancy, age dependency, labor force, terms of trade, etc.) serve as explanatory variables. The estimates for Ghana are shown in Table 2.7. Unfortunately, a large number of the predicted values are missing, as a result of the missing values for several periods for one or several of the explanatory variables. Consequently, not much can be gleaned from the results. Nevertheless, what is clear is that the decade spanning the latter part of the 1970s and the early 1980s was characterized by substantial negative growth rates, as earlier observed. In addition, given its attributes, Ghana under-performed in the early periods. In particular, the decade of 1975-84 appears to be a particularly bad period for Ghana's performance. This period shows Ghana's negative differential growth with the other OECD and non-OECD countries in the sample to be the largest at nearly 6 percentage points, compared with an average of about 1 percentage point over the other periods.

According to Table 2.7, policy, much of it exemplified by an overvaluation of its domestic currency, seems to have been a major culprit in the underperformance. High inflation and excessive government spending during 1975-84 seem to have also contributed to this underperformance. Though Ghana's negative growth differential appears to have narrowed during the latter decade of 1985-97, the full ramifications of the structural adjustment program during this period cannot be gleaned from the results reported in Table 2.7, thanks to missing data.

Table 2.7: Pooled Conditional Model-Based Results, Ghana

Period	Fits and Residuals			Actual and predicted growth deviation				Breakdown of policy contribution by variable		
					Contribution to predicted Growth deviation					
	Actual growth	Fitted growth	Residual	Actual growth deviation from sample mean	Base variables	Political instability	Policy	Inflation (>500%)	Black Mkt premium (>500%)	B/L gov't spending
1960-64	0.37	3.25	-2.88	-1.83	0.25	-0.06	0.35	0.04	-0.14	0.44
1965-69	-0.51	2.41	-2.91	-2.70	0.44	0.07	-0.34	0.03	-0.51	0.14
1970-74	1.75	2.94	-1.19	-0.45	0.01	0.13	-0.01	0.02	-0.08	0.05
1975-79	-3.23	-0.32	-2.91	-5.43	0.10	0.07	-2.90	-0.21	-2.16	-0.53
1980-84	-4.01			-6.21	-1.28	-0.06		-0.23		-1.15
1985-89	1.70			-0.50	1.31	0.20		-0.04	-0.36	
1990-97	1.40			-0.80	0.52	0.20		-0.06	0.14	
Total	-0.36	2.07	-2.47	-2.56	0.19	0.08	-0.73	-0.07	-0.52	-0.21

2.4 Explaining Ghana's Growth Across Different Periods: Macroeconomic Policies and Trends

It is clear from the foregoing that the main factors driving the growth process in Ghana impacted differently at different periods of time. In what follows, we examine the major developments in selected periods between 1960-97 to the extent that they throw more light on the estimates discussed above.

2.4.1 The Savings and Investment Record

Investment has been observed to be perhaps the most robust explanatory variable in the growth equation of developing countries (Levine and Renelt [1993]). As a % of GDP, gross domestic investment in Ghana was as high as 25% in 1960 (Figure 2.2). It fell to about 20% the following year and hovered around that level until 1967 when it tumbled to as low as 11%. This low level of investment continued into the 1970s, reaching levels below 10% in the early 1980s. When reforms began in 1983, the investment ratio was 9%. By 1987, however, it had regained its earlier levels of the mid-teens and by 1993, it had moved to about 20%, about the level in the early 1960s. Thus on the surface, at least, it appears that investment improved substantially above its levels in the 1970s and early 1980s upon the implementation of the ERP and SAP.

Figure 2.2 shows a pattern of dis-investment over the 1960s and the 1970s. Starting about 1983, however, this trend was reversed, a reversal that may be attributed to the liberal economic reforms starting in 1983 (Asante 1999).

Growth in domestic investment remains slow, however. Projections in the first medium-term development plan of Ghana: Vision 2020 place investment at only 22% of GDP by the year 2000 (Ghana: Vision-2020; Dordunoo and Nyanteng 1997). Domestic savings are expected to equal foreign savings by the same year, contributing 11% each to GDP (Table 2.8).

Figure 2.2
Investment to GDP

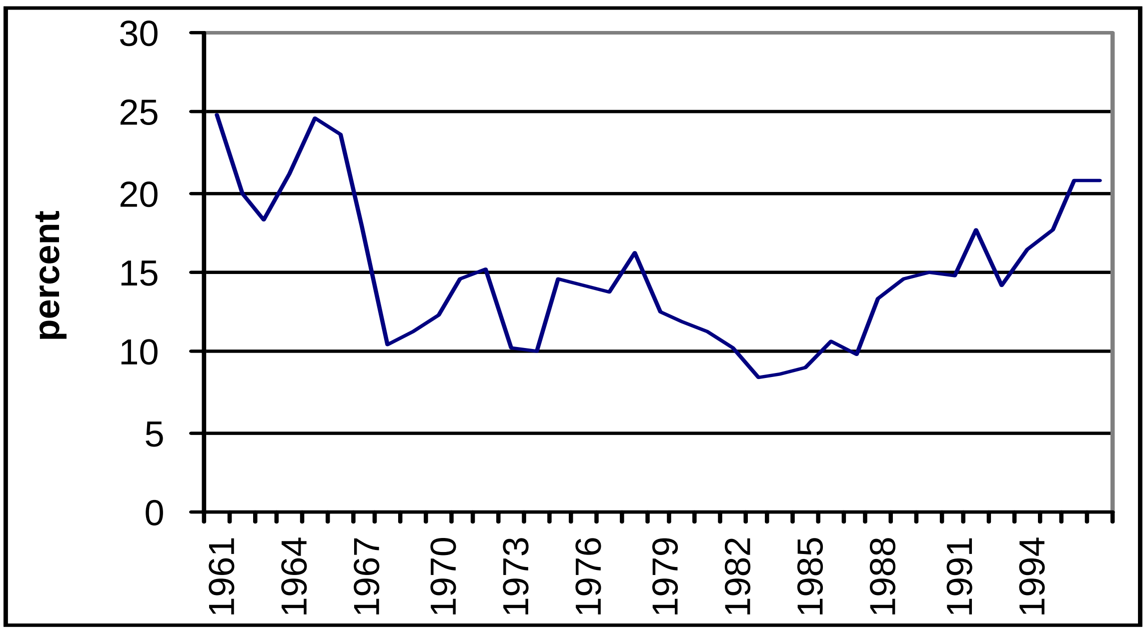


Table 2.8: Savings and investment, 1991-2000 (% of GDP)*

Item	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Gross investment	14.2	14.8	17.1	17.5	17.1	17.5	18.6	19.0	21.1	22.4
Of which private	10.3	9.8	11.5	1.0	10.8					
Domestic savings	4.1	2.1	2.0	3.8	6.5	7.4	7.9	8.5	9.6	11.2
Of which private	3.4	1.7	1.6	0.1	5.3					

Foreign savings	10.1	12.7	15.0	13.7	10.6	10.1	10.8	11.3	22.5	11.2
Of which private	6.9	8.1	9.8	8.0	5.5					

* Projected figures in the period 1996-2000.
Source: Ghana vision-2020: The first medium term development plan (1997-2000

As paltry as the future predicted levels of investment are, the fulfilment of such projections will even largely depend on whether Ghana can generate the expected domestic savings as well as foreign savings. So far the level of domestic savings as a percentage of GDP has been below 8%. Although there is a definite upward trend since the dismal levels of the early 1990s, much higher levels are required for any sustained growth in investment and GDP.

2.4.2 Economic Policies and Trends for 1960-66

Ghana attained independence from British colonial rule in 1957 under the leadership of Mr. Kwame Nkrumah and his Convention Peoples Party (C.P.P). At independence in 1957, Ghana was the world's leading producer of cocoa and its *per capita* income was amongst the highest in Sub-Saharan Africa. Partly as a backlash to the colonial policies and partly in line with current thinking at the time on economic development, the C.P.P embarked on a policy of import-substituting industrialisation (ISI). The constitution of the C.P.P indicated the establishment of "a Socialist State in which all men and women shall have equal opportunity and where there shall be no capitalist exploitation". Its Manifesto promised free education up to age 16, a free national health service, the mechanisation of agriculture, and rapid industrialisation.

The Nkrumah government embarked on a Seven-Year Development Plan: 1963/64-1969/70. The plan was aimed at modernising the economy of Ghana through industrialisation. It is therefore not surprising to see that physical capital accumulation over this period was the most significant contributor to output growth.

At the macroeconomic level, however, the economy was in decline. The estimated decline in TFP of 1.96% between 1960-64 was a precursor to the economic decline. It suggests that the higher input growth was not efficiently allocated. Table 2.8 shows that the external reserve position deteriorated significantly between 1957 where net reserves stood at US$269 million, and 1966 when they were negative (-US$391 million). This reflected a deteriorating balance of payments position and also the poor credit rating accorded the country. The country registered three consecutive years of negative growth in *per capita* GDP between 1964 and 1966. Inflation increased from 1% in 1957 to 22.7% in 1965.

Table 2.9: Ghana: Macroeconomic Indicators 1957-1966

	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966
GDP growth rate[a]	-1.0	-4.7	10.0	3.4	1.1	2.4	1.0	-0.2	-2.4	-2.1
Trade Balance[f]				-10	-72	13	-41	0	-163	-55

Current Account[f]				-129	-203	-109	-177	-130	-310	-173
Gross reserves[b]	273	281	304	294	163	197	219	136	118	113
Net reserves[b]	269	277	295	259	159	180	187	89	-10	-39
Inflation (%)[c]	1.0	0.0	2.9	0.9	6.2	5.9	5.6	15.8	22.7	14.8
Govt Budget Balance[d]	14,586	9802	-16,146	-49,438	-58,891	-94,784	-96,265	-75,954	-77,573	-37502
Saving/GNP[e]	12.4	18	16.1	15.2	12.7	14.2	13.6	14.6	8.6	8.0

Notes:

[a] Source, Frimpong-Ansah (1991) Table A6.7

[b] million US$. Source, Frimpong-Ansah (1991) Table A6.3

[c] Source, Frimpong-Ansah (1991) Table A6.10

[d] Source, Ewusi (1986)

[e] Source, Frimpong-Ansah (1991) Table A6.8

[f] millions of Cedis. Source, Killick (1978) Table 5.1

2.4.3 Economic Policies and Trends for 1966-72

The deteriorating economic situation and the attendant fall in living standards was the pretext under which a group of army and police officers, constituted as the National Liberation Council (N.L.C.), overthrew the Nkrumah government in February 1966. The N.L.C. subsequently handed over power in 1969 to the civilian elected Progress Party (PP) government of Dr. K.A. Busia.

The ideological stance of these two governments was pro-private capital and opposed to Nkrumah's "socialist" policies. They introduced IMF-sponsored monetary reforms, devalued the currency and liberalised the external sector (Frimpong-Ansah 1991). Under the N.L.C. disinflationary policies aimed at stabilising the macro economy were implemented. There was a reduction in domestic investment, tighter control over import licenses and a devaluation of the Cedi (Killick 1978).

As Table 2.10 shows, the objective of stabilisation was largely achieved. GDP growth increased from -0.2%% in 1967 to 1.2% by 1969. The balance of trade moved into surplus and the current account and government budget deficits were also reduced. Inflation fell from 22.7% in 1965 to 6.9% by 1969. TFP nonetheless declined by 2.01% between 1965 and 1969.

By 1972, the economy found itself in the same position as it was in 1965 with increasing fiscal and current account deficits. The government responded with a devaluation of the Cedi at the end of 1971. The devaluation, together with preceding economic difficulties, provided the pretext for another coup d'etat in January 1972, which ended Ghana's second democratic experiment.

Table 2.10 Ghana: Macroeconomic Indicators, 1967-1974

	1967	1968	1969	1970	1971	1972	1973	1974	
GDP growth rate[a]	-0.2	1.8	1.2	4.6	2.5	-5.3	2.5	3.7	
Trade Balance[f]	26	59	81	143	-36				-
Current Account[f]	-117	-69	-70	-21	-191				
Gross reserves[b]	95	106	80	74	53	115	194	108	

Net reserves[b]	-52	-44	-103	-24	-11	126	212	2
Inflation (%)[c]	-9.7	10.7	6.5	3.0	8.8	10.8	17.1	18.8
Govt Budget Balance[d]	-59706	-69,209	-39,019	81,400	81,400	9,400	-10,600	-29,000
Saving/GNP[e]	9.0	13.0	11.0	11.5	6.5	14.3	12.1	8.0
Minimum Wage Index[g]	61	61	57	55	51			

Notes:

[a] Source, Frimpong-Ansah (1991) Table A6.7

[b] million US$. Source, Frimpong-Ansah (1991) Table A6.3

[c] Source, Frimpong-Ansah (1991) Table A6.10

[d] Source, Ewusi (1986) Tables 191, 194,119, 122

[e] Source, Frimpong-Ansah (1991) Table A6.8

[f] millions of Cedis. Source, Killick (1978) Table 5.1

[g] Source, Rimmer (1992) Table 6.10

2.4.5 Economic Policies and Trends, 1975-1984

As was noted earlier, the period between 1975 and 1984 saw the most significant decline in GDP growth per worker, with the decline in TFP being the most significant contributory factor. What happened in this period?

It should be noted that this period was one of a sustained deterioration in the economy under five "different" governments. By no means did these governments pursue the same policies. However, for the most part, the policies of this period emphasised import substitution, underpinned by a restrictive foreign exchange regime, quantitative restrictions upon imports and price controls, with the state playing a major role as producer.

Table 2.11: Ghana: Macroeconomic Indicators 1974-1984

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Real GNP *per capita**										
1975 Prices (Cm)	520	459	404	403	435	408	393	365	325	320
Money Supply (Cm)*	697	1009	1430	2386	4088	4631	6058	9415	11440	16861
Current Account ($)	-	-2,7	-25.5	-144.4	-109.3	40.4	-53.7	-508.1	-192.3	-294.2
Inflation (%)*	18.4	29.8	56.1	116.5	73.7	53.9	50.1	116.5	22.3	122.8
Rural inflation (%)	-	-	58.6	117.3	75	59.4	60.6	109.5	22.4	129.5
Urban inflation (%)	-	-	51.6	112.7	72	49.4	41.2	120	22.2	124.2
Govt Bud Deficit*(Cm)*	357	624	870	1479	1906	1646	4440	4675	3593	4511
Agric. Prod.(000, t)*										
Cereals	890	672	689	639	540	780	674	725	543	308
Starchy Staples	7988	7462	4435	5995	4105	3927	4349	4114	4431	3657
Cocoa	382	397	327	277	268	281	254	220	179	159
Exports Index+										
1968=100	55.1	56.4	59.1	48.7	40.1	38.2	39.5	40.7	46.0	32.6
Terms of Trade+										
1968=100	100.7	95.5	99.6	103.4	94.6	95.1	95.0	61.6	48.2	48.2
Index of Mineral										
Production 1975=100*	-	100	97	87	76	65	64	60	54	46
Timber Production*										
Cubic Metres	-	623	565	586	591	285	185	222	-	-
Real Minimum Wage*										
1977=100	292	225	144	100	77	50	44	46	38	32

Notes:

* World Bank 1985 (Adapted from Comic et al. 1988)

+ World Bank 1987

The dramatic contraction between 1970 and 1983 entailed a decline in GDP *per capita* by more than 3% a year, in industrial output by 4.2% a year and in agricultural output by 0.2% a year (Tabatabai 1986). The main foundation of the economy, cocoa, mineral and timber production was on the decline. Cocoa exports fell from 382,000 metric tonnes in 1974 to 159,000 metric tonnes in 1983. Mineral exports declined from an index value of 100 in 1975 to 46 by 1983. Production of starchy staples fell from 7,988,000 tonnes in 1974 to 3,657,000 tonnes by 1983 (Table 2.11)

Although in 1983 food production was affected by the worst drought in Ghana's history, the decline was mainly due to the massive migration suffered by the rural sector. This exodus was partly a result of the deteriorating economic conditions and also to the 1973/4 oil boom in Nigeria (a crisis for Ghana), which induced more than two million Ghanaians to leave in search for greener pastures in Nigeria. Inadequate food prices intensified the demand for food imports, and the diminishing capacity to import deprived agriculture as well as other sectors of inputs, the shortage of which hampered production still further.

Particularly hard hit was the government's tax base, as those activities that provided it with the bulk of its revenues shrank disproportionately. Central government revenues, which amounted to 21% of GDP in 1970, fell to only 5% of a smaller GDP in 1983 (Tabatabai 1986). The revenue collapse increased the reliance on the banking system to finance expenditures. Between 1974 and 1983 the monetary base expanded from ¢697 million to ¢11,440 million. The loss of monetary control accelerated inflation which increased from 18.45 in 1974 to 116.5% by 1981 in the midst of a regime of controlled prices (Table 2.11) .The period of decline was also characterised by negative real interest rates, and domestic savings and investment decreased from 12% and 14% of GDP, respectively, to less than 4% (IMF, 1987).

In the meantime, successive governments continued the policy of overvaluing the Cedi, quietly cognisant of the fate that befell the Busia government's attempt at devaluation in 1972. Between 1974 and 1983 the Cedi was devalued only once in 1978 (from ¢1.15 to ¢2.75 to $US 1) despite a hundred-fold increase in domestic prices. As Table 2.11 shows, the current account deficit of US$ 2.7 million in 1975 increased to US$ 294 million by 1983. The current account deficits not only depleted gross official foreign reserves but also involved an accumulation of external debts. Arrears amounted to the equivalent of 90% of annual export earnings in 1982 (IMF, 1987).

Successive governments responded with import controls, which fell disproportionately on consumer goods. Consumer goods as a proportion of imports fell from 20.2% in 1975 to 17.1% in 1980. The continuing economic decline was, once again, the pretext under which Flt. Lt. Jerry John Rawlings staged a coup d'etat in December 1981, establishing the Provisional National Defence Council (PNDC).

Initial economic policies of the PNDC were interventionist. The PNDC sought to reduce "the stranglehold of privatisation" on the economy and to increase state control of essential services as a means of protecting people from unscrupulous local and foreign capitalists. Price controls, import duties and tariffs were imposed on certain commodities produced in or imported into the country. The PNDC was hostile toward the prescriptions of western financial institutions such as the International Monetary Fund (IMF) and World Bank

A combination of a severe Sahelian drought, sporadic bush fires, the flight of capital from the country, and continuing miserable performance of the economy threatened the very existence of the regime early in 1983. This precarious situation was compounded by the mass expulsion of over one million Ghanaians from Nigeria in the same year. In the absence of a realistic alternative, the regime turned to the World Bank and IMF for help. The April 1983 budget signalled the government's change of course. This budget contained a significant devaluation of the Cedi and an increase in the prices of basic foodstuffs. It marked the beginning of Ghana's reforms.

2.4.6 Economic Policies and Trends, 1985-1997

The structural adjustment programme was one for the economic liberalisation of various sectors of the economy. Exchange rate policy, fiscal and monetary policies, privatisation, and trade policies all saw dramatic changes with increased liberalisation of the economy. From Tables 2.11 and 2.12 there is a marked contrast in the performance of the Ghanaian economy in the pre and post-1983 periods. The Ghanaian economy initially recorded a remarkable recovery following the institution of the SAP in 1983.

Since 1983, GDP growth rates have averaged 5% per annum, with the output of cocoa, minerals and timber recording significant increases. And inflation has fallen from the very high pre- reform levels (122% in 1983), declining to 10 % in 1992. The inflation rate has not stayed low, however, increasing slightly from its 28% annual average in 1985-1989 to 29% in the latter part of the reform period. Nor has private investment improved much, remaining at about 4.0% of GDP. The overall gross domestic investment rose from about 11% to 16%, however, suggesting that all the improvement in investment during the latter part of the reform era was attributable to increases in public investment.

Table 2.12: Ghana: Macroeconomic Indicators 1983-1992

	1983	**1984**	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**
GDP growth rate (%)	-4.6	8.6	5.1	5.2	4.8	5.6	5.1	3.3	5.3	3.9
Agric. Production										
Cereals	308	669	676	867	1057	1146	1177	845	1436	1254
Starchy Staples	3657	3814	5868	5362	6001	6815	6840	5208	10808	10277
Cocoa	159	175	219	226.4	205.2	246.6	296.1	284.4	276.7	
Manufacturing output Index 1977=100				49.3	54.2	56.8	63.0	63.5	71.3	76.9
Current Account ($m)	-156.9	-76.5	-156.5	-85.3	-98.0	-66.9	-89.7	-223.1	-251.6	-376.2
Inflation (%)	122.8	39.6	10.4	24.6	39.8	31.4	25.2	37.2	18.0	10.0
savings/GDP (%)	3.0	5.9	7.1	8.2	11.3	12.5	13.7	11.6		
Investment/GDP (%)	3.7	6.9	9.6	9.7	13.4	14.2	15.5	16.0		
Av. Real earnings in the public sector	48	67	100	-	122	160	167	164	171	270

Source: International Financial Statistics, Ghana, Quarterly Digest of Statistics, various issues.

Also, real interest rates turned positive and the government budget recorded surpluses from 1986 to 1991 (IMF, 1991). In 1992, however, the economy showed signs of adjustment fatigue. The government budget recorded a large deficit, equivalent to almost 5% of GDP, which was financed largely by borrowing from the banking system (Table 2.12).

While export growth rebounded strongly to a growth of 11% in 1985-1989 from its dismal decline in the pre-reform period of about 9.0%, it registered no growth in the latter 1990-1996 period. Meanwhile, unlike the first two periods when the growth of imports paralleled that of exports, import growth was substantially positive at 5.0% despite no growth of exports this latter period. Consequently, the current account balance worsened further to about 9.0% of GDP, from its earlier reform ratio of 5.0%. Furthermore, the fiscal condition of the economy seems to have reverted to its earlier period of ill health. It registered a deficit of 11% of GDP (government deficits, excluding grants), nearly paralleling the 12% rate for the control period of 1975-1984, and slightly more than twice the ratio during the earlier phase of the reform era. Much of this worsening in the government budget deficit could be attributed to substantial increases in government expenditures which, as percent of GDP, increased by 9.0 percentage points over the previous period, compared to only about 3.0 percentage-point increase in government revenues.

Cocoa has traditionally constituted a major source of export earnings and, presumably, of investment funds in Ghana. Earnings from cocoa exports in real terms rose to a peak of $495 million (real 1987 dollars) in 1987, from $426 million in 1986, and then started declining (Table 2.13). The dominance of this sector continued to dwindle as Ghana expanded its export base. Cocoa's share of export earnings steadily declined from 67% in 1986 to 26% in 1994, though it appears to have picked up somewhat to 35% in 1996 (Table 2.13).

In contrast, contributions to export earnings by the minerals sector rose steadily through the 1986-1995 period, taking over from cocoa as the principal foreign exchange earner. The mineral earnings share reached its peak in 1994 at 48% but declined to 41% in 1996. Unlike cocoa, there have been increases in contributions to total foreign exchange earnings by timber, minerals and non-traditional exports since 1986. More recently (1995-96), however, the share of cocoa has experienced an upward tick, while those of timber and minerals have fallen. The share of non-traditional exports has also shown an increase, from 3% in 1986 to 9% in 1996. Nevertheless, in 1996 minerals continued to be the major export earner for Ghana even though its contribution to total earnings fell from 47% in 1995 to 41% in 1996 (Table 2.13).

Table 2.13: Merchandise export earnings by sector, 1986-1996 (Real 1987 million US dollars)*

Item	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996

Gross exports	634.5	826.6	908.2	865.0	882.7	921.2	970.8	1242.5	1641.5	1660.3	1863.6
of which:											
1. Cocoa total	426.2	495.4	476.3	436.6	354.9	319.9	297.7	334.0	424.7	451.9	654.6
% contribution	67.2	59.9	52.4	50.5	40.2	34.7	30.7	26.9	25.9	27.2	35.1
2. Minerals total	105.3	159.4	193.5	199.1	238.6	325.5	382.5	553.2	780.1	787.5	760.7
% contribution	16.6	19.3	21.3	23.0	27.0	35.3	39.4	44.5	47.5	47.4	40.8
3. Timber total	37.3	89.8	109.5	85.9	116.1	114.7	112.1	172.2	219.4	221.1	174.3
% contribution	5.9	10.9	12.1	9.9	13.2	12.4	11.5	13.9	13.4	13.3	9.4
4. Non-traditional products	20.2	27.9	43.6	37.2	61.3	53.6	63.9	83.8	114.9	116.0	172.0
% contribution	3.2	3.4	4.8	4.3	6.9	5.8	6.6	6.7	7.0	7.0	9.2
5. Others	45.5	54.1	85.3	106.2	117.4	107.5	114.6	99.4	102.5	83.9	102.0
% contribution	7.2	6.5	9.4	12.3	13.3	11.7	11.8	8.0	6.2	5.1	5.5

*Real 1987 dollars; author's conversion using GDP deflator based on US dollar series.
Source: Bank of Ghana and Ghana Export Promotion Council

During this latter period (1990-97), the Collins and Bosworth estimates show that growth of output per worker was 1.27% compared to a growth rate of 2.32% in the 1985-89 period. Furthermore, the growth in physical capital and human capital accumulation were the most significant contributors to growth in this period, increasing by 0.75% and 0.41% respectively. In the 1985-89 period on the other hand the growth in TFP of 2.01% was the most significant factor contributing to growth.

What is interesting from these results is that the 1985-89 period was a period of intense structural adjustment in Ghana. At the onset of the SAP, Ghana's infrastructure was in a state of disrepair, hence an increased investment in physical capital, public and private was in order. Nonetheless, growth in this period was dominated by TFP. In the 1990-97 period, on the other hand, when the rate of increase in physical capital accumulation ostensibly decreased, physical capital accumulation was the most significant contributor to growth. This suggests that the impact of increases in physical capital on growth for example may operate with a lag, while a change in the policy environment to one more conducive to higher productivity may have a more immediate effect.

Fiscal Policy

Government budget deficits balances have been observed to be negatively related to private investment and, hence, to growth in developing countries (Mlambo and Oshikoya 2001). With closer monitoring of government expenditure and more effective management policies, the Ghana government budget (narrow definition) recovered from its earlier deficits to surpluses during the 1986-91 and 1994-95 periods (Table 2.14). However, it recorded huge deficits to the tune of ¢49 billion and ¢29 billion (real) in 1992 and 1993, respectively, on account of wage increases to the civil service and public corporations and costs incurred during the transition to democratic rule.

Fiscal action in the petroleum industry enabled the government to convert the perennial deficit of the 1970s and early 1980s into a modest surplus in 1986. The surplus reached a peak of over 1.5% of GDP in 1991 before falling back to a 4.8% deficit in

1992. However, by 1994, a new peak of budgetary surplus of 2.5% of GDP had been attained (Table 2.14). Ultimately, the government mobilised a yearly average of ¢5 billion real 1987 in foreign resources to finance the budget deficit.

It is important to note that the government's demands on the Bank of Ghana (BOG) have entailed direct creation of money by the latter. This kind of deficit financing has been the main source of excess liquidity in the economy and the growth in broad money supply, which averaged 42% of GDP in the period 1984-96.

Table 2.14: Budget deficit/surplus (narrow definition), 1984-1996 (in real 1987 billion Cedis)*

Year	Nominal overall Deficit/Surplus (bil. Cedis)	Real overall Deficit/Surplus (bil. Cedis)	Deficit/Surplus % of Expenditure	Deficit/Surplus % of GDP
1984	-4.8	-9.2	-17.6	-1.8
1985	-7.6	-13.2	-15.8	-2.2
1986	0.3	0.4	0.4	0.1
1987	4.1	4.1	3.8	0.5
1988	3.9	3.0	2.6	0.4
1989	10.3	6.3	5.1	0.7
1990	3.4	1.5	1.3	0.2
1991	39.0	14.6	11.0	1.5
1992	-144.7	-49.3	-28.5	-4.8
1993	-106.1	-28.9	-12.7	-2.7
1994	123.8	27.1	10.5	2.5
1995	70.3	9.6	4.1	0.9
1996	-335.5	-31.4	-13.9	-3.2

*Real 1987 Cedi; author's conversion using CPI series.
Source: Ministry of Finance (PAD) and authors' calculations

Table: 2.15: Structure of government revenue (%)

Item	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Total revenue (real billion Cedis)*	43.4	70.2	102.9	111.0	117.0	130.4	118.4	146.5	124.9	199.6	284.6	223.7	207.5
Tax revenue	79.2	79.7	84.5	85.5	84.0	81.4	82.2	81.8	82.4	69.6	64.6	63.8	77.1
Income and property	18.1	19.9	19.2	21.7	26.3	21.4	20.6	16.0	17.0	15.1	13.1	15.4	19.5
Domestic goods & services	24.8	20.8	26.6	23.6	25.2	24.3	26.8	35.3	35.2	30.5	23.7	20.4	25.9
International trade	36.3	39.2	38.7	40.2	32.5	35.7	34.7	30.5	30.3	24.1	27.8	28.0	31.7
Imports	14.2	16.4	19.3	16.0	16.6	21.0	24.5	21.2	24.7	19.2	16.5	19.2	19.1
Exports	22.6	22.8	19.3	24.2	15.9	14.6	10.2	9.0	5.6	4.9	11.2	8.8	12.5
Non-tax revenue	16.8	16.4	10.3	9.1	8.5	8.7	7.4	8.9	8.7	9.4	10.3	25.0	12.9
Income and fees	16.8	16.4	10.3	9.1	8.5	8.7	7.4	7.7	7.0	8.6	9.8	24.7	12.7
NPART transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.2	1.6	0.9	0.5	0.3	0.2
Divestiture receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	16.0	20.5	6.0	6.4
Foreign grants	4.0	4.0	5.3	5.4	7.5	9.9	10.4	9.3	8.9	4.9	4.6	5.3	3.5
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

*Real 1987 Cedis; author's conversion using CPI series.

Source: Calculations from Ministry of Finance data

Other means of deficit financing for the government involve issuing domestic debt. Indeed this has become the main source of finance since 1997. The stock of real domestic debt stood at ¢1,404 billion at the end of 1996. This represented a growth of about 115% from 1990, and as much as 62% from 1995 alone. This huge growth has been propelled by poor fiscal restraint. The continued rise in domestic debt poses a serious burden on any future budget, since increased budgetary allocations would be required for debt servicing in subsequent years. The extent of this fiscal constraint on the budget was evident particularly in the financial year 1996, when the interest payments on domestic debt rose by 87%, from ¢233 billion in 1995 to ¢435 billion. Even though domestic debts accounted for only 11% of the total national external and domestic debt in 1996, interest payments on the domestic debts constituted over 75% of the total interest payments (ISSER, 1996).

Structure of the Budget

The structure of the government budget has been shown to matter for growth. For example, increased taxation tends to reduce growth (Wheeler, 1984). On the other hand, recurrent expenditures contribute positively to growth in developing countries (Devarajan et al., 1996).

The greatest contribution to government revenue in Ghana was taxation in the period 1984-96. Although tax share of revenue fell to as low as 64% revenue in 1995, it was above 77% during most of the period (Table 2.15). Proceeds from international trade constituted the bulk of the tax revenue, followed by tax on domestic goods and services.

Total real government expenditure rose dramatically from ¢53 billion in 1984 to ¢239 billion in 1996 (Table 2.17). The highest level of expenditure, however, was in 1994 when the government spent ¢258 billion. Much of the increase in government spending is attributable to increased public service salaries, which rose from 2.0% to 6.0% of GDP (ISSER 1996).

Table 2.17: Structure of government expenditure (%)

Item	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Total expenditure (real billion Cedis)*	52.8	83.4	102.5	107.0	114.1	124.1	116.9	131.9	174.2	228.5	257.5	214.9	238.8
Recurrent expenditure	84.7	80.4	82.9	78.1	76.1	77.5	78.1	77.6	78.4	82.9	81.2	74.2	72.9
Wages and salaries	19.3	30.3	35.7	33.6	33.0	30.8	31.2	30.0	33.5	27.2	25.2	25.1	24.0
Other goods and Services	37.8	26.9	17.1	17.4	17.5	17.5	17.0	17.2	13.5	16.9	16.8	11.1	9.5
Subventions	12.0	8.4	10.1	9.0	9.4	8.8	10.2	9.6	8.1	9.0	8.0	7.9	9.4
Transfers	3.6	4.0	4.6	8.3	8.1	11.2	9.4	8.7	11.3	13.8	11.6	10.8	7.3
Interest payments	12.4	10.6	15.4	9.9	8.0	9.2	10.3	12.2	11.9	16.1	19.6	19.2	22.7

Capital expenditure (Development and net lending)	15.3	19.6	17.1	21.9	23.9	22.5	21.9	22.4	21.6	17.1	18.8	25.8	27.1
Development expen-diture	12.4	15.2	13.4	17.4	19.9	18.7	18.3	19.1	19.3	16.2	18.1	24.9	22.9
Cash expenditure	12.4	15.2	13.4	17.4	19.9	18.7	18.3	19.1	19.3	14.2	14.1	18.8	17.5
Arrears clear	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.9	0.8	2.7	2.3
District Assemblies Common Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.3	3.4	3.1
Net lending	2.9	4.4	3.7	4.6	4.0	3.8	3.6	3.2	2.3	1.0	0.7	0.9	4.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

*Real 1987 Cedis; author's conversion using CPI series.
Source: calculations from: Ministry of Finance data

Recurrent expenditure dominated the bulk of government expenditure, ranging between 73% and 85% during 1984-95 (Table 2.17). The bulk of this was on wages and salaries, which remained over 30% of total expenditure during much of this period. At 19% of expenditures in 1984, wages and salaries had reached 36% two years later. The increase in civil service wages and salaries in the 1980s was in part aimed at offsetting the erosion of real incomes from the 1970s and also reducing the wide disparities existing between the public and private sectors.

Spending was also increased in the areas of physical and social infrastructure, as well as agriculture. Capital expenditure took up between 15% and 27%, much of this being development expenditure. It is noteworthy that while the relative contributions of wages and salaries to government expenditures have been falling since 1992, the share of capital expenditures has been increasing. Since the latter comprises almost entirely development expenditure, the observed pattern should bode well for infrastructure base in the long run.

Exchange Rate Policy

Misalignment in the real exchange rate is a major source of adverse effects on economic growth (e.g., Ghura and Greenes, 1993). As part of the economic reforms, Ghana has liberalised its exchange system. Although there has been a difference between the inter-bank exchange rate and the average forex rate, the two rates invariably move together, with the inter-bank being the lower of the two (Table 2.18). However, as Table 2.18 shows, the divergence between the two rates had almost disappeared by 1996.

The growth of the foreign exchange rates has tended to be quite high and varied from year to year. It ranged between 13 % and 49 % for inter-bank rates and between –0.8 to 59 % for the average bureau de change rate (Table 2.18). Growth in inter-bank rates was generally higher than that of the bureaux for the 1988 to 1996 period. It is not exactly clear why growth rates would differ by as much as 20% between the inter-bank and bureaux rates during some years. What is apparent, though, is that the rate of depreciation of the Cedi has been higher under the inter-bank rate in order to engender the convergence between the two rates (Table 2.18).

Table 2.18: Nominal exchange rate of the (Cedi/US dollar), 1988-1996

Year	Average inter-bank exchange rate (Cedi/US$)	Average forex bureau rate	Inter-bank growth (%)	Bureaux growth (%)	Parallel market premium
1986	89.21				
1987	162.37				
1988	202.34	285.75			83.41
1989	270.01	351.56	33.44	23.03	81.55
1990	326.28	348.85	20.84	-0.77	22.57
1991	367.73	388.23	12.70	11.29	20.50
1992	437.09	459.21	18.86	18.28	22.12
1993	648.98	670.22	48.48	45.95	21.24
1994	956.73	1065.39	47.42	58.96	108.66
1995	1200.40	1229.63	25.47	15.42	29.23
1996	1637.24	1657.22	36.39	34.77	19.98

Source: Bank of Ghana and author’s calculations

It is expected that the rapid depreciation of the nominal exchange rate and the resulting elimination of the real exchange rate misalignment, as exemplified by the unification of the official and parallel market rates, would improve Ghana’s external competitiveness. This should increase the incentives for export production and diversification (e.g., Elbadawi, 2001). Despite its advantages, the rapid rate of depreciation of the Cedi has had some adverse effects on the economy. Though inflation has recently been lower during most of the reform period, there is little doubt that the rapidly depreciating Cedi has made the inflationary picture less bright.

International Trade and Payments

Much evidence abounds that international trade promotes growth. In particular, this thesis is confirmed for African economies (see Fosu, 2002 for a survey). Exports have been increasing in Ghana since the ERP was instituted (Table 2.19). So too have imports. Hence the level of trade shows a significant trend as of the mid-1980s.

Due to the balance of payment problems that prevailed in the latter part of the seventies and early eighties, one of the primary objectives of the ERP was that Ghana should attain a viable balance of payments (BOP) position in the medium to long-term. This was to be achieved through increased export earnings and foreign direct investments. Unfortunately, both trade and current account balances continued to show persistent deficits and worsening trends (Table 2.19). There appear to have been general improvements in these deficits since 1993, though.

Between 1987 and 1991 Ghana achieved an overall BOP surplus. In 1996, however, this trend was reversed with real BOP declining from a surplus of $289 million in 1995, for example, to a deficit of $22 million in 1996 (Table 2.19). Although there were substantial transfers from both official and private sources, they were not enough to counteract the adverse impact of the negative trade balance on the current account. In addition, an unfavourable capital account meant that the outcome of the overall balance was negative.

Both private and government (net) capital levels have moved upward over the 1985-86 period. In particular, private capital picked up substantially as of 1992, though there was a dip between 1995 and 1996. One of the possible explanations for this ebb is that 1996 was an election year, and potential investors must have held on to their capital, due to increased uncertainties regarding the election outcome, a move that is consistent with a "wait and see" strategy. A similar trend emerged four years earlier during the 1992 elections, when private capital fell from $18 million in 1991 to a low of $6 million (Table 2.19).

Table 2.19: Summary of Ghana's balance of payments, 1985-1996 (Real million 1987 US$)*

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Merchandise Exports (f.o.b)	648.1	634.5	826.6	908.2	865.0	882.7	921.2	970.8	1242.5	1641.5	1660.3	1863.6
Merchandise Imports (f.o.b)	-685.1	-622.4	-993.9	-1024.1	-1083.1	-1186.0	-1217.6	-1433.6	-2018.7	-2095.4	-1958.0	-2297.7
Trade balance	-37.1	12.0	-107.3	-115.9	-217.8	-303.3	-296.4	-462.8	-776.6	-453.7	-297.7	-434.2
Invisibles (net)	-123.3	-84.3	9.3	46.9	121.7	83.8	64.1	92.5	123.0	117.0	131.0	51.2
Current account	-160.3	-72.2	-98.0	-69.0	-96.0	-219.6	-232.3	-370.3	-653.0	-336.7	-166.7	-382.9
Government capital (net)	32.9	108.6	218.0	185.5	183.3	285.8	329.3	380.4	432.5	391.6	157.2	416.6
Long-term loans (net)						317.3	344.4	306.7	540.7	413.9	373.9	366.9
Gross inflows						348.9	379.1	345.1	594.3	489.9	460.6	457.8
Amortisation						-31.6	-34.7	-38.4	-53.6	-76.0	-86.7	-90.9
Medium-term loans						-28.1	-14.8	73.7	-108.2	-22.3	-216.7	49.7
Gross inflows						64.1	65.2	153.1	144.9	150.1	120.2	208.1
Amortisation						-92.1	-81.8	-79.2	-253.0	-172.4	-336.9	-158.4
Trust fund loan						-3.4	-0.4	0.0	0.0	0.0	0.0	0.0
Short term capital (net)	25.1	-58.3	29.8	27.4	20.0	-58.3	14.6	-117.0	179.4	-29.6	198.1	-42.3
Private capital (Net)	5.9	5.9	4.4	11.3	9.6	52.0	17.6	6.3	124.2	272.9	303.0	83.0
Direct Investment (Net)	5.7	3.6	4.7	12.4	16.1	14.6	18.5	22.1	29.2	39.8	40.6	23.7
Divestiture	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	116.8	269.6	82.9	118.6
Suppliers credit (Net)	0.2	2.3	-0.3	-1.0	-6.4	37.4	-0.8	-15.8	-21.8	-36.5	179.5	-59.3
Gross inflows						42.3	12.4	3.0	2.3	0.0	214.6	0.0
Amortisation						-4.9	-13.2	-18.8	-24.2	-36.5	-35.0	-59.3
Non-monetary short-term capital						7.7	-22.1	-50.5	134.9	47.3	135.3	133.7

Monetary short-term capital						-65.9	36.7	-66.5	44.5	-76.9	62.9	-176.0
SDR allocation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	41.1	-32.2	-12.2	-26.8	19.9	56.3	28.5	-21.9	-35.0	-81.0	-76.9	21.8
Overall balance	-55.3	-48.3	139.3	128.5	136.8	116.2	157.7	-122.3	48.1	217.2	289.0	-22.4
Change in off/term ext. post.	55.3	48.3	-139.3	-128.5	-136.8	-116.2	-157.7	122.3	-48.1	-217.2	-289.0	22.4

*Real 1987 dollars; author's conversion using Ghana's GDP deflator based on US dollar series.
Source: Calculations from Bank of Ghana data.

Aid Flows and Growth

The current thinking is that external aid promotes growth in a sound policy environment (Burnside and Dollar, 2000). Ghana is considered to be one of the countries with a relatively good policy environment, that is since the mid-1980s following ERP. We thus examine the flow of external aid to Ghana, especially in the latter part of the 1980s.

Since the launching of the ERP, Ghana has successfully mobilised substantial resources from the donor community. In 1991, net ODA from all donors in real terms reached a peak of four times the amount in 1980 (Table 2.20 and Figure 2.4). This figure had declined to $565 million by 1995, however. A pertinent question is how much economic growth in the reform period has depended on the amount of aid received and whether this level of external assistance can be sustained.

A potentially worrisome situation is the sustainability of external aid, in the light of the large proportion of ODA as a proportion of GDI. This proportion reached 100% in the late 1980s for all donors (Table 2.20). Should ODA constitute the major source of investment, then finding other sources of investment funding, particularly foreign direct investment (FDI) as well as domestic financing, is imperative. Fortunately, the ODA proportion has gradually been falling in the 1990s, to less than 60% in 1995.

Related to aid flows is the question of Ghana's external as well as domestic debt. Ghana's external public debt continues to increase. From 1990 the real total external debt increased by 9.0 percent to reach $4 billion in 1991; from 1991 to 1992 there was a 10 percent increase; and from 1992 to 1993 it rose by 12 percent to reach $5 billion (source: World Bank, *African development Indicators*, 1997). This growth rate declined to 7.0 percent, 1.0 percent and 5.0 percent between 1994 and 1996. Total external (public) debt as a proportion of GDP rose from about 56 percent in 1990 to as high as 97 percent in 1994, before dropping to 84 percent by 1996 (source: *ibid.*). The increased indebtedness underscores the need to wean the Ghanaian economy from external financing. Such indebtedness is worrisome in the light of the finding that external debt can have deleterious impacts on economic growth (Fosu, 1996, 1999).

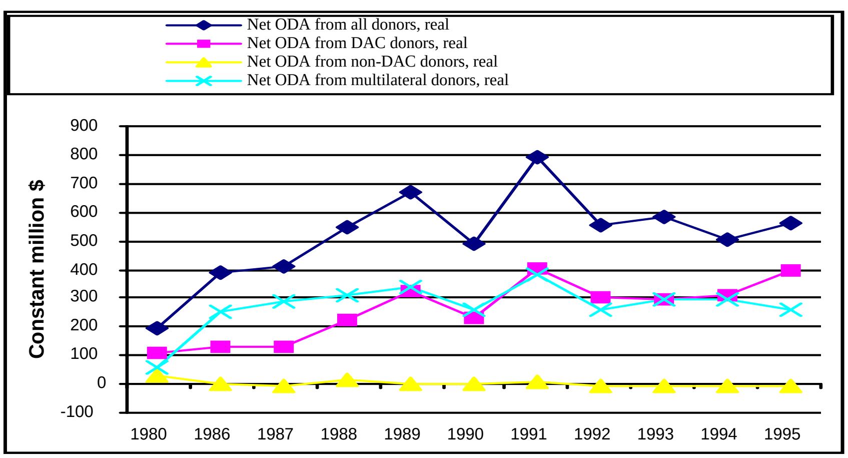
Table 2.20: Aid flows to Ghana

	1980	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995

Millions of 1987 US$ (constant prices)											
Net ODA from all donors, real	198	389	413	546	668	493	794	553	585	505	565
Net ODA from DAC donors, real	110	130	131	223	327	232	404	300	296	307	397
Net ODA from non-DAC donors, real	27	4	-5	13	2	1	8	-4	-4	-5	-5
Net ODA from multilateral donors, real	61	255	287	310	338	260	382	257	294	294	260
Percentage of GDP											
Net ODA from all donors as share of recipient GDP	4.3	6.3	8.1	11.1	13.7	9.6	13.4	9.6	10.9	10.6	11.3
Net ODA from DAC donors as a share of recipient GDP	2.4	2.1	2.6	4.5	6.7	4.5	6.8	5.2	5.5	6.4	5.8
Net ODA from multilateral donors as share of recipient GDP	1.3	4.1	5.7	6.3	6.9	5.1	6.4	4.4	5.5	4.3	4.9
Percentage of GDI											
Net ODA from all donors as share of recipient GDI	76.8	65	60.7	98.4	103.5	66.3	84.2	74.7	73.8	66.4	56.8
Net ODA from DAC donors as share of recipient GDI	42.8	21.8	19.2	40.2	50.8	31.2	42.8	40.5	37.3	40.3	31.2
Net ODA from multilateral donors as share of recipient GDI	23.6	42.6	42.2	55.9	52.4	35.0	40.5	34.7	37	6.8	26.1

Source: The World Bank, ADI (1997)

Figure 2.3: Aid Flows to Ghana 1980-1996



3. PRE-LIBERALISATION ECONOMIC POLICIES AND PERFORMANCE (1960-83)

We draw from the analysis in section 2 the conclusion that capital accumulation and application has not been easy, and the improvements in total factor productivity have been difficult to achieve. These have been the consequences of both policy and base conditions. It is important to link these conditions to the situation of markets and institutions that govern them.

This section of the report therefore discusses details of the workings of the economy through the functioning of market institutions under a controlled macro regime. It is important to observe that the period 1960-83 was one in which the state sought to replace the market in the allocation of productive resources. This was felt in the markets for various production inputs, particularly for credit, labour and other agricultural inputs. The state also played a major role in the determination of prices of many goods and services, imported as well as locally-produced. We discuss here the functioning of the labour market, credit market, the land market and the market for finished goods and services under different political regimes in the period 1960-83. The objective is to show the pervasive role of the state and the bottlenecks it created for capital accumulation and improvements in TFP.

3.1 Market Institutions and their Functioning under Controls

The discussion is limited to the labour, credit, land and goods and services markets. We will show the fact that the state had a distinct role in the performance of these, except for the land market which has structural problems of its own.

3.1.1 The Labour Market under a Control Regime

The labour market in Ghana is one that has been most difficult to study over the years in view of the paucity of data and other materials (Boateng and Fine, 2000). That notwithstanding, it is generally observed that the labour market has three main sectors, namely, the agricultural and rural sector, the urban informal sector, and the urban formal sector. The rural labour market is strongly influenced by local customs and traditions in employment and wage determination, and the process of settlements is largely informal. The agricultural and rural sector employs more than 60% of the total labour force, and much of that is employed in family farm holdings.

The urban informal labour market is dominated by informal labour exchanges in small enterprises, though it is not completely cut-off from the practices and outcomes in the formal sector. In the urban sector, the informal labour market is the dominant market, constituting at least 65% of the labour force, predominantly in self-employment. In the formal sector, which accounts for some 16% of the total labour force, employment contracts are generally written and subject to the general conditions of performance specified by the market. The primary institution of the formal labour market is the industrial relations system, comprising four elements: the system of laws, regulations and conventions, labour and employers' associations, regulators, and collective bargaining agreements. The labour market also seems to be segmented along gender lines, whereby females are predominantly engaged in the service and commercial sectors, or in the urban informal sector or as unpaid agricultural labour.

What is clear about the labour market in the pre-reform era is the extent to which different governments went to ensure that employment grew. Thus, the structure of the market (in terms of the regional and sectoral distribution of the labour force), extent of unemployment, and the level of real wages all experienced remarkable changes: from one of geographical immobility and shortage of all kinds of labour to one of great mobility and surplus of many types of labour. Some researchers (Boateng, 1997) have attributed the growing fiscal deficits in the 1960s and 1970s to considerable featherbedding of the formal sector. With this, formal sector employment grew significantly but with very little attention paid to productivity.

The main instrument used by government to control the supply and demand for labour has been the minimum wage policy. A minimum wage policy was first adopted in Ghana in 1963. The objective was to raise income levels of unskilled workers within a social policy context. Since then minimum wages have been used as an instrument to effect across-the-board increases in salaries in the public sector. Ghana applies two main concepts of minimum wages, namely, the daily minimum wage fixed for the civil service, and the statutory minimum wage below which it is illegal to employ. Usually the daily minimum wage is first established[2] and then upward adjustments are made to other levels in the salary structure according to some agreed criteria. This practice, together with attempts to compress wages, introduced significant rigidities in the earnings structure of the public sector.[3]

Aside from the minimum wage, the relatively rapid expansion of formal employment in the 1960s was a consequence of the expansion of the public sector itself. The 1960s saw the major attempt to create more and more state enterprises of different sizes in almost every sector of the economy. It had the effect of attracting not only skilled labour into the modern sectors but also led to a major expansion of the informal and unskilled urban labour class to support the more formal sector. The public sector consequently became both the most significant employer and trend-setter in the determination of wages as well as regulator. This is a role that has not changed significantly despite the reforms of later years, and underlies a lot of the macro trends emanating from both the fiscal and monetary sides. The size of the public sector wage bill and how it was financed has been for many years the most important issue in national economic management.

3.1.2 Credit Markets Under a Controlled Regime

[2] Based on the statutory minimum wage fixed in consultation with the Tripartite Committee of government, employers and organised labour.

[3] The Ghanaian labour market is highly imperfect, exhibiting strong labour supply and demand in-elasticity as well as wage rigidities due to the strong influences of labour market institutions. The unionisation rate within the formal sector is about 68%, implying that at least two-thirds of formal sector jobs are subject to collective bargaining agreements. Due to the system of pattern bargaining relative wages among sectors of the economy tend to be inflexible.

The relatively small private domestic investment identified earlier is often linked to the relatively small formal credit market. It was in an attempt to expand this credit market that control regimes were instituted.

In order to deal with what was regarded to be a market failure, which denied people access to credit and other financial services, the interventionist approach began under "self-rule" in 1953 with the establishment of Ghana Commercial Bank for both political and economic objectives[4]. Subsequently, the financing needs of specific sectors were addressed by establishing state-owned development banks: the National Investment Bank (1963), the Agricultural Development Bank (1965), and the Bank for Housing and Construction (1973). The Bank of Ghana was established in 1957 to supervise all other banks (replacing the role of the West African Currency Board). Direct intervention of state institutions in channelling credit paralleled the statist approach to investment under Nkrumah.

Government interest in small clients during the 1970s fostered another generation of specialised banks: the Co-operative Bank, the National Savings and Credit Bank, the Social Security Bank, and unit rural banks.[5] They were all charged to direct credit to specific groups. The emphasis on directed credit was consistent with the approaches of international agencies at the time, particularly as a means of satisfying the basic needs of low-income households and providing them opportunities for self-enhancement. Government intervention to overcome the perceived slow pace of private banking also took the form of pressure on state-owned banks to increase the number of branches. The total number of bank branches more than doubled in the 1970s, reaching 466 (including rural banks) by 1985.

Financial policies became most repressive following the 1972 change in government. Controls on all sectors of the economy were substituted for the market and tightened as weak macroeconomic management fostered rising inflation. For the management of bank portfolios, the largely state-owned banking system was directed to channel credit to what were called "the productive sectors" of the economy using a mix of interest rates and selective credit controls and ceilings. Credit management policies were dictated by the fact that "in spite of the high liquidity in the system, the productive and priority sectors in the economy were not receiving adequate institutional credit" (Bank of Ghana 1980). As many as eleven borrower-categories for the sectoral distribution for loans and advances were identified for the purpose of directing credit.

For interest rate policy, Bank of Ghana adjusted all rates periodically in order to promote increases in the level of investment among different sectors. In 1973, for exam-

[4] The two foreign banks at the time were seen to favour well-established foreign firms and to neglect indigenous farmers and small entrepreneurs in granting loans and advances.

[5] First launched in 1976, 128 were eventually established, owned and managed by members of the local community. Many became financially distressed or inoperative, but with rehabilitation efforts in the 1990s, 60 were ranked by the Bank of Ghana in 1996 as performing satisfactorily and another 47 as mediocre. Their primary success has been in savings mobilization, accounting for 27% of total formal deposits mobilized in 1993.

ple, the lending rate was fixed at a maximum of 10%. In 1980, Bank of Ghana adjusted interest rates downwards to make it easier for institutional funds to flow to the productive and priority sectors. In 1983, Bank of Ghana again directed that commercial banks should charge a preferential interest rate of 8% per annum (instead of the general 9% at the time) on loans and advances to small-scale farmers. The policy for sectoral credit allocation was for Bank of Ghana to prescribe credit ceilings for the 11 different borrower-categories in the form of permissible %age increases over each bank's prevailing loans and advances.

The difficulties with the management of financial institutions before reform were summed up by the World Bank (1994) as follows: "Before 1989, norms for minimum capital adequacy and prudential lending were not clearly defined by law. Banks failed to apply uniform accounting standards. They had no legal obligation to build up loan-loss reserves, and as a result, virtually all of Ghana's banks had excessive concentrations of risk, insufficient capital, unrecognised loan losses, and reported inflated profits".

3.1.3 Land Markets Under a Controlled Regime

One of the important characteristics of the investment profile of Ghana of the pre-reform era has been the low investment in Agriculture. This was in spite of the fact that agriculture was for long the major income earner and source of employment. Thus, even though agricultural land constituted 57% of total land area, only 20% of this has been cultivated (Nyanteng and Seini 2000). The main reason for the rather small portion of cultivated land is that agricultural investment at 2% of GDP has always been too small. This is what motivates a discussion of constraints in the land market that often discouraged investment in the improvement of land.

Quite a bit of the literature on land tenure in many African countries including Ghana have suggested that traditional land tenure arrangements are detrimental to the efficient use of land and hence are a disincentive to agricultural investment. They suggest that because land resources are usually not privately owned, users of such resources have no incentive to limit their consumption, unsure of what other users will do. This leads to the well-known argument of the "tragedy of the commons". (See a discussion of this in Cleaver and Schreiber 1994). There are, of course, opposing views that suggest individualisation of land endangers land distribution and social equity. What Cleaver and Schreiber subscribe to is that there is a whole range of land tenure arrangements that have radically different impacts on communities and societies. Indeed Ghana presents a very good case of a country with a large variety of land tenure arrangements according to ethnicity and inheritance systems, whose impact on economic activity is difficult to determine.

While there are major pieces of work that suggest that access to land is a problem, others suggest that such access has never been a major constraint to agricultural expansion and practices. Nukunya's work (1971) shows that for shallot farming in the Anlo area (south eastern Ghana), the main constraint to expansion is difficult access to land which is in short supply in view of the peculiar requirements of the crop. Shallot farmers are forced to use land more intensively than in other regions, but this does not necessarily lead to greater application of capital in view of the poverty of the area. The land tenure system in the area shows considerable variation in how one may obtain access to land, but in increasingly smaller portions and with rights that are becoming more and more diffused.

Benneh's work (1971) in the savannah-forest contact zone of central Ghana showed that while access to land under traditional systems was still relatively easy as an entitlement, there were growing signs of pressure as a result of the introduction of cash crops. Where economic activity was gathering pace, communities tended to be reluctant to permit the release of large tracts of land for commercial farming. The conclusion drawn from both pieces of work was that the tenure system in Ghana was under considerable pressure, torn between social equity and efficient use of land.

In the changing environment for land acquisition, the state in the 1960s used its powers of acquisition to acquire land, largely for state farms and other public economic activities with only token (non-market) compensation paid to the communal/family owners. In using its authority to acquire land for various ventures, the state hardly affected the price of land as a land market never really existed. This was largely because the state implicitly discouraged the development of a commercial land market. In the case of corporate bodies seeking land for their ventures, the state sometimes acquired communal lands that were leased to the investors at non-market rates. The state also sometimes encouraged communal owners of land to make transfers of land directly to investors, a practice that Benneh (1971) saw as being problematic in a number instances, creating conflicts between public and private interests. The consequence has been that the land market is poorly developed and the use of land as an asset is often uneconomical.

3.1.4 Goods and Services Markets under Controls

Ghana began its march towards growth and development after independence focusing on industrialisation, viewed as a key factor in modernisation and development. The explicit objectives of industrialisation were to exploit natural domestic resources, to form a base for developing other economic sectors, to satisfy the basic needs of the population, to create jobs, and to assimilate and promote technological progress and modernise society. The industrial strategy at the time was characterised by (a) an emphasis on import-substitution through high levels of effective protection, (b) a reliance on administrative controls rather than market mechanisms to determine incentives and resource allocation, and (c) a reliance on large-scale, public sector investment as the leading edge in industrial development.

Industry

As we observed earlier, there was a major expansion in manufacturing capacity in the 1960s. During the brief attempt at liberalisation between 1966 and 1971, there was a slow down in the establishment of state-owned enterprises. With the adoption, however, of the principle of self-reliance and the desire to capture the "commanding heights of the economy" the state-led import-substituting industrialisation (ISI) strategy was revived in the 1970s. In addition to expansion in manufacturing production and capacity through

ISI, policy statements also emphasised an expansion in manufactured exports. Even though export diversification was considered necessary if the foreign exchange constraint on the economy was to be reduced, but this was never actively pursued. The choice of an inward-oriented trade strategy was motivated by export pessimism at the time, in relation to the ability of primary exports to generate the necessary foreign exchange required for rapid growth. Unlike the East Asian tigers that were able to make the transition from an ISI strategy to an outward oriented one, Ghana got stuck at the ISI stage.

In pursuit of ISI, severe sectoral policy conflicts existed and there was a mismatch between policy objectives and implementation. It is today acknowledged that an expansion in manufactured exports could only have occurred within the context of an ISI strategy if measures had been introduced to counteract the anti-export bias inherent in the ISI strategy. Unfortunately such a policy mix was not achieved in Ghana during the 1960s and 1970s.

Agriculture

In the area of agriculture, the pronounced role of the state was again exhibited in the immediate post-independence period. The policies placed emphasis on the modernisation of agriculture and expansion through major capital investments controlled by the state. This led to the establishment of what came to be known as ‘state farms’, covering large tracts of land in all regions and using huge amounts of labour to operate them. In the early 1970s, however, an attempt was made to accommodate the private sector. State-owned enterprises, machinery and equipment were sold to private entrepreneurs and parts of the economy were returned to the market system. Experiments with import liberalisation were carried out and small-scale agricultural development was emphasised vis-à-vis large state farms in the government's economic programmes.

Nyanteng and Seini (2000) have reported that another feature of agricultural policy in the early 1970s was the formation of single product development boards such as cotton, bast fibre, grains and cattle and meat development boards. Policy makers believed that the ingenuity of the peasant farmer could be further successfully exploited, as in the case of cocoa, by the establishment of development boards to offer advice, incentives and oversee the production of agricultural raw materials that were vital to newly established factories. In order that farmers did not suffer income losses from productivity gains and over-production of these commodities, government also instituted minimum guaranteed price schemes for these commodities. Agricultural policies were supported by a massive rural development scheme, designed to provide the basic infrastructure of roads, water and electricity that would encourage the rural people to stay and farm in the rural areas. In the cocoa sub-sector, the multiple buying system, involving several companies, was re-established to replace the monopoly then enjoyed by the United Ghana Farmers Co-operative Council, which was subsequently dissolved.

The experiments of the early 1970s were short-lived, however. The overthrow of the civilian government by the military in 1972 led to the dismantling of the open market policies and a command economy was re-instituted. Comprehensive import controls were resorted to, the scope of price controls was widened, and some imported consumer goods were subsidised. A monopoly system of cocoa purchasing (unitary buying system) was reintroduced in 1977.

At the same time, there was considerable interest in raising agricultural production to self-sufficiency level. The military government instituted the Operation Feed Yourself (OFY) and the Operation Feed Your Industries (OFYI) programmes after 1972. These programmes were to spearhead the campaign to increase food and agricultural raw material production. Among the objectives of these programmes was the increase in small farm production through acreage expansion (Killick, 1978). The OFY emphasised the production of cereals, mainly maize and rice, while the OFYI encouraged the production of cotton, kenaf, sugarcane among other agricultural raw materials.

Price Regulation

The period 1972-82 saw the most intense regulation of prices for consumer goods and services, even though some controls were present for most of the 1960s. The military regime instituted in 1972 a wide-ranging set of prices for consumer items, covering food, household items, transportation, rent, etc. The Prices and Incomes Board became, in the 1970s, the institution for determining the purchase price of most consumer items, imported as well as domestically produced. Indeed, what most Ghanaians associate with the economic problems prior to the institution of reforms in 1983 was the shortage of most consumer items from the goods markets and the disappearance or decline of many basic social and economic services. There are enough stories about empty grocery shops, long queues to purchase essential household items, half empty classrooms, empty hospital beds despite growing incidence of disease, overcrowded houses and rooms, declining public transport, etc. (Toye 1991).

The move to control prices was seen by Bates (1981) as part of the urban-biased policies of the government. The argument was that since government leaders were rationale maximizers of their political interest, they recognised that the allegiance of the urban elite groups, including bureaucrats and workers, was essential to their long-term survival. They used price controls to ensure that their consumption did not decline even in the face of enormous hardship within the wider economy. This position is however challenged by Gyimah-Boadi and Jeffries (2000) on the grounds that the debilitating effects of other macroeconomic policies essentially wiped out any possible welfare gains or protection from price controls. This is argued to be the reason why urban groups did not resist in any organised manner the later introduction of liberal reforms which took away the so-called gains from price controls.

3.2 Micro-Level Evidence of Policies and Outcomes

We discuss in this section the nature of the control policies instituted before reform and their outcomes for the economy. We discuss these in terms of the labour and credit markets where the evidence is quite well documented, and also in the goods markets by considering production within the established state owned enterprises as the relatively tiny small private sector.

3.2.1 Labour Market Performance Under Controls

The increased investment in social overhead capital, particularly in education, health and housing, and in directly productive activity by the government during 1957-65 increased rural-urban migration and enhanced participation in the paid labour force. The growth in the economic well-being and advances in the social provision of medical and health services, education and law and order led to an accelerated growth in the labour force in the 1970s and 1980s as shown in Table 3.1.

Table 3.1: Estimated Annual Growth of the Labour Force 1960-2000

	Total	Males	Females
1960-65	1.92	2.18	1.57
1970-75	2.08	2.22	1.90
1980-85	2.66	2.94	2.26
1985-90	2.76	3.05	2.32
1990-95	2.99	3.14	2.76
1995-2000	3.10	3.25	2.87

Source: Boateng (1997).

Employment

The movement of labour from the rural areas to the urban centres in pursuit of modern sector employment led to the decline of the share of the agricultural sector in the labour force from 64% to 52% as is shown in Table 3.2. About 50% of the decline in agricultural sector share in employment occurred in the period 1960-70 whilst the remaining 50% occurred in the period 1970-92, implying a slow-down in the rate of labour absorption in the urban economy after 1970.

Table 3.2: Distribution of Economically Active Population (%)

	Agriculture	Industry	Services
1960	64	14	22
1970	58	17	25
1975	57	17	26
1980	56	18	26
1985	54	18	27
1990	53	19	28
1991	53	19	28
1992	52	19	29

Source: Boateng (1997)

Boateng (1997) has reported that formal sector employment, defined as recorded employment in establishments employing five or more workers, grew steadily from 332,900 in 1960 to 483,500 in 1976. It remained stagnant between 1976 and 1979, began to decline between 1980 and 1982. It rose to a new height in 1985 and began a long descent thereafter, reaching a low 186,300 in 1991 under the liberal regime. Thus, formal sector employment in 1991 was 44% less than in 1960, representing an average annual decrease of 1.4% compared with an average annual growth rate of the urban labour force of 5.3% between 1960 and 1990. Thus the importance of the formal sector as a source of employment declined from 3.6% to 2.5% between 1981 and 1991, as shown in Table 3.3.

Table 3.3: Formal Sector Employment 1960-1991 ('000)

	Private Sector	Public Sector	All Sectors	Share of Private Sector %
1960	149	184	333	44.7
1965	118	278	396	29.8
1970	110	288	398	27.6
1975	137	318	455	30.1
1980	48	291	337	13.6
1985	67	397	464	14.4
1986	66	347	414	15.9
1987	79	315	394	20.0
1988	55	252	307	17.9
1989	38	177	215	17.7
1990	34	189	229	17.5
1991	30	156	186	16.1

Source: Boateng (1997)

Boateng (1997) has indicated that the period of mass employment in 1960-85 was the consequence of a policy objective of employment maximisation supported by a broad-based regime of state controls on all major aspects of the Ghanaian economy, from price and exchange rate controls to state ownership of manufacturing and distributive trade centres. But this did not involve the private sector. Boateng (1997) reports that Private sector employment, which stood at about 149,000 in 1960, fell to 31,000 in 1991, a decrease of about 79.2%, an average decrease of 2.7% per annum. This resulted in the share of the private sector in formal sector employment declining from 45% in 1960 to only 16% in 1991. He attributes the private sector's poor employment performance to the poor economic performance in the seventies and early eighties caused by years of mismanagement and decline in terms of trade. Employment performance varied also among the industrial sub-sectors, resulting in changes in the sub-sectors shares of formal sector employment. The agriculture sector in formal sector employment declined from 17.3% in 1960 when it employed over 57,000 persons to 7.9% in 1991 when it employed only about 15,000.

Wages

As earlier indicated, the determination of wages is restricted by institutional factors. Negotiations, the basis of which is often not clear, including collective bargaining at the enterprise or sectoral levels, minimum wage negotiations at the national level, and strikes have influenced the determination of wages. Out of these have emerged the view that wages are generally low in Ghana (Collier et.al 1998). Boateng (1997) reports that men earn higher wages than women, due to differences in occupations and positions. Earnings in the private sector are also higher than the public sector though the gap has narrowed somewhat. Occupational mobility of labour is low due to rigidities in relative wages, poor wages, mismatch between training and job opportunities, poor human resource development and lack of training facilities in the country. Geographical mobility, however, seems to be high with many people migrating from the northern part of the country to the south and from rural to urban areas (Boateng 1997).

Faltering employment and output growth in the Ghanaian economy have generally led to sharp declines in real wages, especially during the period 1980-84 when the index of real minimum wages fell by eighteen percentage points (Table 3.4). Since nominal wages have always moved up sharply the decline in real wages has been caused generally by inflationary erosion.

Table 3.4: Nominal and Real Average Monthly Earnings per Employee

	Nominal Earnings	Real Earnings	Index of Earnings	
			Nominal	Real
1960	33.00	5.538	15	255
1965	38.97	3.828	18	176
1970	54.99	4.035	25	186
1975	102.69	3.473	47	160
1980	460.22	1.147	212	53
1985	3633.00	0.996	1671	46
1986	7433.00	1.636	3419	75
1987	10524.00	1.657	4841	76
1988	13805.00	1.655	6351	76
1989	24257.00	2.321	11159	107
1990	30056.00	2.096	13827	96
1991	35212.00	2.080	16199	96

Source: Boateng (1997)

Nominal wages increased by 6.4% per annum between 1981 and 1991. They, however, varied in terms of magnitude and effect on employment performance among the various economic sectors. Boateng (1997) observed that the financial sector was the only sector in which growth in nominal wages was associated with a positive change in employment levels between 1981 and 1991. Employment fell in absolute terms in all the other sectors.

Baah-Nuakoh et al. (1996) have suggested that public sector wage changes do not necessarily lead to employment changes in the sector. Rather they increase the public wage bill and hence affect the size of the budget deficit, and through this interest rates, money supply and inflation. On the other hand, due to the size of the public sector in the formal labour market, public sector wage changes significantly affect wage levels and hence employment levels in the private sector. In the manufacturing sector, for example, they observed that a ten % increase in the wage rate results in between 3.5-5.5% decrease in employment, largely in the small-enterprise sector. This might partly explain slow formal private sector employment generation in the pre-reform period.

Productivity

Labour productivity (average value added per worker deflated by the manufactures wholesale price index) in the manufacturing sector declined by about 43% between 1977 and 1981 (World Bank, 1985). The downward trend in labour productivity was largely due to constraints in laying off redundant labour in spite of low rates of capacity utilisation. The low wages, relative to the urban cost of living, provided little incentive to work. The compressed wage structure offered little reward to greater skills and productivity, especially in the public sector. The decline in employment in the face of rising output implies that labour productivity has increased, at least in the formal sector.

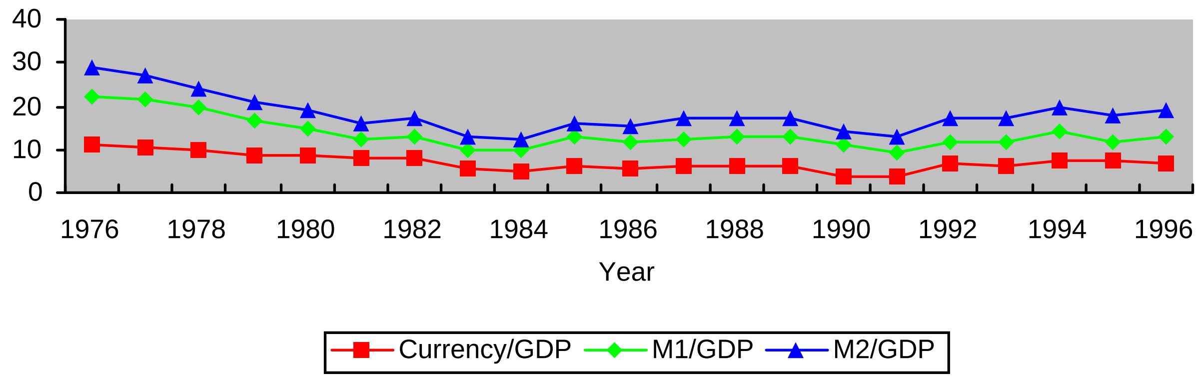
A point made about the labour market in Ghana by Collier et.al. (1998) is that while the productivity of Ghanaian workers is generally low, it is matched by a relatively low wage packet. This is derived from a rapid growth of the labour force and employment at a time when production hardly grew consistently. The rapid growth of the labour force and policy of rapidly absorbing it through public sector employment while assuring labour a minimum wage helped to achieve steady growth in the numbers until the reforms began.

3.2 Credit Market Performance Under Controls

The interventionist policies on the credit market as outlined earlier had the effect of reducing significantly the size of financial market activity, reducing competition in the financial system and making the financial market respond more to the needs of the state than to those of the productive agents. Even though the number of financial institutions and their branches were increased rapidly in the 1960s and 1970s, that did not lead to efficient mobilisation of resources for growth and development. In addition the system failed in its supportive role to the development of the monetary sector. These developments are seen as having contributed in no small measure to the slowed growth after the mid-1960s.

The failures of the system were best reflected in how various policies became ineffective and were often ignored in the operations of the financial institutions (Aryeetey 1994). The negative impact of repressive policies on financial sector development was most clearly seen in the halving of financial depth, measured by the M2/GDP ratio, from over 25% in 1977 to only 12% in 1984 (See Figure 3.1). Between 1977 and 1984, most other indicators of the development of the financial system declined in size (measured as a %age of GDP); demand deposits fell from 11.6% to 4.6%; savings and time deposits from 7.1% to 2.6% and domestic credit declined from 38.8% to 15.6%.

Figure 1. Indicators of Financial Deepening in Ghana, 1976-96



The domination of items of short-term maturity in the balance sheets of banks was considerable. By 1983, almost 70% of the banking system's liabilities originated from demand and savings deposits only. By the early 1980s development banks relied more on borrowing in the face of shrinking business and a declining deposit base. The required capital adequacy ratio of banks, measured as the ratio of a bank's paid-up capital to its total deposit liabilities, (5%) was seldom achieved (Aryeetey 1994). The assets of the banking system were characterised by low lending volumes in very short-term instruments. Most of lending at the time was undertaken by development banks, whose loan/deposit ratios exceeded 80%, funded from short term borrowing.

Despite substantial demand by the priority sectors and credit controls intended to channel funds to them, all of the commercial banks held substantial excess reserves in the form of cash and government paper, far above the Bank of Ghana's minimum reserve requirement. Excess reserves averaged about 15% of total deposit liabilities [in the decade prior to reforms], with about 5% in cash reserves and 10% in government paper. One explanation for excess reserves during this period was the low return to lending to priority sectors. Credit and interest rate controls prevented banks from making and pricing loans according to a ranking of risks and returns. In these circumstances, holding cash with no return was preferable to lending at spreads insufficient to cover costs.

Impact of Portfolio Management Policies on the Direction of Credit

The fixed interest rates, credit ceilings and mandatory guidelines turned out to be ineffective in directing credit (Aryeetey, et.al. 1992). Basically, the government's macroeconomic objectives that underpinned the sectoral choices (real economic growth and abatement of inflation) did not necessarily coincide with the microeconomic considerations of the banking sector. The banks were more interested in resolving the conflict between profitability and liquidity against the background of risks, credit-worthiness and investment opportunities. Quite often, directives from Bank of Ghana to the banks to allocate more to the priority sectors were not accompanied by any incentives to the banks, bearing in mind the fact that these sectors were considered by most bankers to be high-risk sectors. Moreover, the sectoral guidelines and mandatory targets were often applied to the entire banking system irrespective of the individual banks' specialisation. Similarly, the method of directing an expansion coefficient at domestic credit and the sectoral distribution tended to freeze the institutional structure of loans and advances as it prevailed at the reference date.

There was subsequently a reduction of credit to the priority sectors. For example, loans and advances to the agricultural sector experienced a 4.4% decline between 1980-81, despite the fact that credit guidelines permitted a 50% increase over the previous year's level. Again, credit to the ‘special’ export and ‘priority’ manufacturing sectors showed in the same period increases of only 7.8% and -0.3% respectively. Credit to the commerce sector, on the other hand, recorded a 53% increase against the permitted 10% increase. In 1982, Bank of Ghana reported that, “lending to most sectors, especially the designated priority sectors, fell far short of permitted limits. In the case of agriculture, for instance, the previous ceiling of 100% increase was lifted completely in September 1981 to encourage the banks to increase lending to the sector. Despite this encouragement, credit to agriculture rose by only 36%. Similarly, lending to the manufacturing sector increased by only 20% compared with the permissible ceiling of 75%; while credit to the export trade sector even declined” (Bank of Ghana 1982).

3.2.3 The Production of Goods and Services Under Controls

We consider in this section the impact of the controlled regime and the import-substitution industrialisation strategy on production in the manufacturing and agricultural sectors. What is generally portrayed by the data is the fact that following large increases in capital applied to manufacturing in the early years, there were significant increases in output, which slowed down after the initial growth and ground to a halt. Agricultural output continued to be erratic and unsteady.

Industrial Output

Asante et.al (2000) as well as Steel (1972) have reported on Ghana’s experience ISI. Steel (1972) indicated that “Ghana’s industrialisation and IS policies were extremely unsuccessful in establishing a structure and level of manufacturing output which could efficiently reduce foreign exchange requirements and stimulate growth of GNP” (pp.226-27). He suggested that massive capacity under-utilisation was the consequence of inappropriate foreign exchange policies and high levels of effective protection which stimulated the domestic production of final-stage assembly, ‘non-essential’ activities. Killick (1978) was also very critical of the strategy of ISI pursued by Ghana, arguing that ‘... a wide-ranging set of conditions conspired to limit the efficiency of the industrialisation drive’, including over-optimism about the future growth of the economy, unselective and arbitrary protection, a variety of biases favouring capital intensity and processes with few linkages with other sectors, a deteriorating quality of investment decisions and sub-standard performance by state enterprises (Killick, 1978, pp 204-5).

The early industrial policies stimulated rapid growth of manufacturing output (averaging 13% per annum) and employment (averaging 8% per annum) during the 1960s (World Bank, 1984). By 1970, manufacturing as a share of GDP had risen to 13%. Total industrial output as a %age of GDP peaked at 21.5% in 1977. From 1977 however, the industrial sector began to lose its momentum. Between 1975 and 1979, the manufacturing sector declined at an annual average rate of -2.5% but this worsened to -12.3% between 1980 and 1982. The decline in manufacturing output prior to the ERP was mainly due to the fact that the balance of payments experienced serious difficulties beginning in the mid-1970s. Import capacity was determined principally by the level of exports, since capital inflows were negligible. Export earnings relied predominantly on cocoa and to a lesser extent on timber, gold and diamonds, all of which showed a downward trend. The sharpest decline in cocoa and gold production took place at a time when the world prices were favourable (1976-79). Due to their high dependence on imports of raw materials, spare parts and equipment, manufacturing industries suffered heavily from the decline in import capacity.

Agricultural Output

The worst period for agricultural production has been 1972 to 1975. Agricultural GDP registered negative growth rates between 1972 and 1975 (Table 6). Its share of real GDP also declined from 58% in 1972 to 49% in 1978. Although the mean growth rate in the subsequent period up to 1982 was positive, it masks the negative growth rates in the earlier part of that period. Agricultural production was not able to keep up with the growth of population. The declining significance of agriculture would have been acceptable only if it had been the result of general economic growth rather than economic decline. The general explanations provided for the poor performance of agriculture have been inappropriate macroeconomic policies, poor pricing policies, poor infrastructure, ineffective extension services and inappropriate technologies.

Table 3.5: Sectoral Growth Rates 1972-1995 Period Averages (Percent)

	1972-75	1976-82	1983-86	1987-90	1991-95
Agriculture	-2.3	1.4	1.5	1.3	2.7
Industry	1.9	-7.3	5.6	7.0	4.3
Services	0.2	1.2	5.7	7.9	6.1

Source: Calculated from Statistical Services **Quarterly Digest of Statistics,** various issues, ISSER (1996).

There was a complete lack of incentive to produce because the subsidised agricultural inputs of fertilisers and insecticides became primary targets for smuggling into the neighbouring countries where high prices more than compensated for their loss of application in Ghana. Agricultural mechanisation, which had been on the upturn, suffered, particularly, as basic spare parts required to maintain machines were lacking.

It was not only the food sector that suffered from poor performance. The cocoa sector suffered from the unfavourable macroeconomic policy stance. The production of cocoa which reached its peak with an output of over 557,000 mt in 1965 declined to the lowest level in the 1983/84 season with an output of about 158,000 mt. This was about 63% less than the output in 1980/81. The exchange rate policy made it impossible for government to pursue a realistic cocoa pricing policy. At the prevailing fixed exchange rate, an increase in nominal producer prices would have meant government accepting a decline in cocoa revenues. Government was not willing to accept a decline in cocoa revenues because of its heavy dependence on this source of revenue. Farmers responded to the decline in real producer prices by not replanting or maintaining the tree stock. The quality of the tree stock was further eroded because of inadequate supply of insecticides and spraying cans even though they were heavily subsidised. The foreign exchange constraint limited the quantities of insecticides and spraying cans that could be imported for use in the cocoa industry.

Nyanteng and Seini (2000) have judged the OFY to have been only partially successful as Ghana became self-sufficient in rice production between 1974 and 1975. It may be observed that the rice came from large elite producers, leaving the contribution of small farmers insignificant. The small farmers were not given the opportunity to participate in the rice scheme (Roberts, 1981).

3.3 The Political Economy of the Controlled Regime

There have been a number of analyses of why Ghana adopted the control regime of the 1960s and continued with this in different forms into the 1980s before starting serious reform. The most detailed of the more recent analyses have come from Leith and Lofchie (1993). Other discussions of the political economy of the times are drawn from Apter (1975) and Chazan (1983) and Mikell (1989). Leith and Lofchie raised the question "Why were inappropriate policies first pursued?", echoing Bates (1979) who had asked "Why should reasonable men adopt public policies that have harmful consequences for the societies they govern?" Leith and Lofchie examined three theses that have been around to explain the policy choices made. The first was the *urban bias* theses generally associated with Bates; the second was the *dominant development ethos* theses that is supported by Killick (1978) and Aryeetey (1989); and finally the *transaction and agency costs* theses derived from new institutional economics on the premise that the government was aware of the institutional inadequacies and hence opted for policies whose implementation minimised transaction costs in the short run. We tend to be of the view it is not a straightforward case of taking any one of the above explanations to explain the policy choices of the time. There is no doubt every likelihood that elements of each of these played a role in specific policy choices.

Instead of examining each of the above theses in turn, the discussion in this section focuses on the roles played by the structure of political institutions in the determination of economic policy, looking out for those specific influences. This is weighed against other external influences like the presence of pressure groups (captured for example by strikes), and the possibility of a direct assault on the state and government as for example through a coup d'etat. The role of corruption as a way of escaping from the legitimate influence of the state in the organisation of economic activity is also discussed.

3.3.1 The Structure of Political Institutions and Economic Policy

The argument we seek to make here is that there was not an open system of decision-making, and therefore there could not have been an adequate structure for reviewing various policy alternatives in order to arrive at the 'optimal'. David Apter (1975) has a comprehensive discussion of the political institutions that run Ghana shortly before and after independence. What he suggests was a basic difficulty in entrenching democratic institutions into Ghanaian political life in view of the social and political tensions that erupted soon after independence. These tensions had been brewing in the run-up to independence and the way that Nkrumah's government chose to deal with them led to the demise of democratic structures, their replacement by a single party that looked up to an individual for all guidance and inspiration. Faced with the development realities and difficulties of a young nation, and in order to hold on to power, the opposition had to be crushed, and this was done with relative ease. The ruling Convention People's Party had to recreate itself in a manner that allowed it to dominate all social, economic and political life in Ghana, a process that made ideology that emphasised the role of the new secular state paramount. That process also led to the removal of moderate thinking from the party machinery. With moderates and 'capitalists' out of government in the first half of the 1960s, the stage was set for state control of the all production processes.

As Apter (1975) noted, "The interest of the militants was in maintaining solidarity and cohesion in the society. They intended to make such cohesion a joint concern of party and state. The leaders of both were in effect *political entrepreneurs* using political power to mobilise and transform the conditions of material life, to develop the country, and to reach out to other African nations in some form of association" (pp.356). For them the state and party could do anything. "Political power was used also for economic ends. Emphasising a kind of economic solidarity, Ghanaian socialism or Nkrumahism was a blend of moral values which emphasised many of the puritan qualities: thrift, hard work, honesty, sacrifice, devotion to duty. It was in addition a doctrine of state enterprise in which leaders used the state and the resources of the community both for development and in increasing measure, ownership" (pp.356).

Most institutions associated with secular democracies were deliberately crushed in order to promote the party over all. The legal system was particularly weakened through the enactment of controversial laws that compromised the liberties of individuals and reduced the prospect for using the court system for resolving disputes in a transparent manner. The civil service was also partially weakened largely through intimidation, while organised labour was highly politicised and made an appendage of the ruling party. Free enterprise could not be encouraged and the system for national economic management saw to that. "Domestically a five-sector economy was called for which included: (a) state enterprises; (b) enterprises owned by foreign private interests; (c) enterprises jointly owned by the State and foreign private interests; (d) co-operatives; (e) small-scale Ghanaian private enterprises. Nkrumah's government was not in the mood for large private Ghanaian ventures and did everything to discourage that. Indeed Nkrumah argued that the 'there was no bourgeois class among Ghanaians to undertake large scale investments'.

National economic management became the responsibility of the State Planning Commission, comprising the President, Minister of Finance, Minister of Industries, Governor of Bank of Ghana, Government Statistician, Head of the Budget Office, Managing Director of Ghana Commercial Bank, Secretary to the Cabinet and the Head of the Office the Planning Commission. The Commission was responsible for the preparation of the 7-Year Development Plan (1963-70). The actual plan preparation was undertaken by a team of experts who liased with government agencies, the private sector and other professionals to produce a draft that was discussed at a conference attended by international experts invited by the government. The plan had as its goal "to foster African unity; transform and diversify the economy; and raise and equalise economic opportunities and benefits through the practice of socialism" (Republic of Ghana, 1963). What was remarkable about the institutional structure for the preparation of the development plan was the very centralised nature of the whole process, very similar to the political process that had emerged.

A centralised machinery needs accurate information from economic agents at all times in order to make meaningful economic projections and also determine their likely response to economic policies. Such information has been shown to have been largely missing (Aryeetey 1985). The consequence was that with the exception of some of the state ventures planned for, hardly any private ventures materialised. National economic management was reduced to government spending on state enterprises and little attention to revenue mobilisation, attraction of investments, savings mobilisation, macroeconomic stability, etc. No wonder, Apter (1975) wrote "Ghana proved to be neither a model of socialist endeavour nor a monument to African enterprise. Planning created an extremely grave organisational problem, which put unanticipated obstacles in the way of development. Ghana depleted her reserves in showpiece projects, public buildings and other costly endeavours, particularly in large towns" (pp.359). One clear aspect of the failed plan and the economic policies of the time is the scant attention paid to agriculture, despite the growing number of state farms.

It was the lack of result from economic endeavours at a time that political repression had taken root in Ghanaian life, that provided widespread support for the military overthrow of the Nkrumah government in 1966. While the change in government was popular, this did not lead to a restoration of democratic institutions in the country for a long time to come. The period from 1966 to 1983 saw a mixture of civilian and military governments that essentially worked with the same institutions, albeit with minor modifications in approach, that the Nkrumah government had erected. Democracy was seldom a feature of national governance, even under the elected government of Dr. Busia (1969-72). The absence of democracy may be regarded as having fuelled the political instability that characterised Ghanaian political and economic life in the first three decades of its post-independence life.

3.3.2 The Role of Pressure Groups

Policies may take a particular turn depending on what pressures policy makers expect to come under. In most societies, it is the strength of civil society or various pressure groups that will dictate the nature and strength of such influences. Apter (1975) has argued that in the period before independence, traditional authority symbolised the alternative source of authority to the colonial government. This was achieved through *indirect rule* and the alliances that chiefs developed with the educated elite groups and other professionals. Soon after independence, one of the strategies used by the Nkrumah government to strengthen its own position was to slowly but steadily chip away at the power bases of traditional authority. The roles of chiefs in all national institutions were replaced by those of other secular agencies, and even in local government this was done. Through charismatic leadership, the authority of ethnically-based institutions that were linked with chieftaincy was eroded, religious institutions were eclipsed through intimidation, academic institutions were slowly but steadily compromised, again through intimidation and the labour unions were absorbed into the party structure.

While organised labour and professional groups were largely considered to be those that would offer alternative views to economic policymaking, if any, the transformation of the labour movement into a party organ was singularly noteworthy in this regard. The fact that strikes were not a major cause of concern at the time was remarkable. The most significant strike that took place was in 1961, organised by the railway workers of Sekondi-Takoradi, easily the best organised labour union at the time. It is important to understand the fact that while most of the labour movement had been absorbed by the government's party, the Railway and Harbour Workers Union at Sekondi-Takoradi saw itself as being threatened by the anti-trade stance of the government. Using the expected deterioration in their incomes and the growing instability in the economy to justify a strike, it was not difficult to develop an understanding with elements of the opposition party to organise a strike that had the potential to cripple the government and the economy. It was no wonder that when the strike was brought under control through the 'divide and rule' tactics of the government, every effort was made by government to compromise the leaders of the union politically. This effectively took away any resistance to the economic policy making apparatus. Indeed it was relatively easy to achieve since most of the few academics had either been absorbed into the political struggles on the opposition side and been effectively sidelined or made to acquiesce through the whole arrangement of patronage.

3.3.3 Political Instability

Aryeetey and Tarp (2000) have observed that "the distinct political instability that was aggravated by poor economic conditions throughout the 1960s and 1970s was reflected in high levels of corruption, policy reversals and a general lack of direction." As the growth in the role of the state became pervasive, it branched into many spheres of economic activity that yielded relatively little economic return and contributed significantly to the macroeconomic instability. Indeed, one characteristic of the political economy of Ghana has been the high incidence of coups d'etats and their association with economic conditions and sometimes with specific economic policies. Existing evidence suggests that among African countries, Ghana has had the largest indicator of this form of "elite" political instability, and that it may have contributed substantially to the observed dismal economic growth performance (e.g., Fosu, 1992, 2002b).

There have often been discussions of the relationship between political instability and economic instability in Ghana (Frimpong Ansah…), which may be growth-inhibiting as well (see, e.g., Fosu, 2001, for an analysis of the relative roles of export, investment and import instabilities on growth). The consensus view is that they have over the years reinforced each other. Writing about the first coup, Apter (1975) wrote states, "The specific reasons for the coup are many. What is clear is that Nkrumah's political method of creating new alternatives without foreclosing others could not go on indefinitely. The restrictions of political opposition and personal freedom, rising prices, higher taxes, and other economic burdens, exaggerated by an inadequate administrative and inefficient managerial infrastructure (under the form of state capitalism which passed for socialism) all contributed. Everyone in the end was affected" (pp.387). Despite the unassailable evidence of foreign instigation of the coup, there is every indication that the coup was a generally popular occurrence in the aftermath of failed policies.

Chazan (1983) has suggested that Nkrumah's government had a method of allowing groups to emerge that depended on the structures and policies that it created. This would explain why it struggled so hard to win organised labour to its side largely through its maintenance in state owned enterprises and on state farms.

The military government that overthrew Nkrumah in 1966 stayed in power until 1969, pursuing a set of economic policies, and indeed putting in place a 2-year development plan, that were never clear in their overall direction. While the government emphasised an anti-socialist ideology, its position on the state enterprises was far less clear and the import of free market principles was never clearly established. While they denationalised some of the SOEs, they also set up new ones. They devalued the Cedi and discussed ways for renegotiating Ghana's growing debt and attracting private capital.

The two-and-half-year civilian administration that followed from 1969 to 1972 had an equally hard time trying to establish a direction for the economy. While its neoliberal intentions were obvious, it never seemed to get to grips with tackling the daunting task left behind by the Nkrumah government. Thus while it continued with the divestiture of some SOEs, it failed to reduce the size of government significantly. Also, despite the dismissal of 568 public servants, they managed to get public expenditures to continue rising even in those bad times. The attempt to pursue liberal economic reforms in the midst of mounting macroeconomic instability was its undoing. The liberal reforms were deemed to be harsh, particularly the devaluation of the Cedi, which provided one of the main excuses used by a section of the military to remove it in 1972.

In the midst of the political turmoil, the downward slide of the economy was most acute during the late 1970s and early 1980s, directly reflecting the corruption and poor economic management installed under the various regimes.

Throughout the second military regime of 1972-1979, economic policy making could, at best, be described as an experiment in how to 'muddle through'. This was the period that was characterised by *kalabule,* a local expression for extortion and signifying 'the survival of the fittest' in an economic jungle. It has also been referred to as *kleptocracy* in the political science literature (Leith and Lofchie 1993). At the time that all attempts at sound economic analysis were suffering a paralysis, the relative affluence of the army caused demonstrations, and brutal repression became the order of the day. The presentation of economic performance provided in section 2 illustrates the gravity of the vicious circle or state of collapse in which Ghana found itself in the late 1970s and early 1980s.

The situation therefore appeared to present itself for some shock political therapy, and that is what happened, beginning from 1979. Unfortunately the political instability continued under the early regimes of Rawlings in 1979 and 1981 interspersed with a brief period of civilian government that was marked by a rather passive economic programme.

In sum, Ghana has suffered severe bouts of political instability that can be closely associated with macroeconomic instability. The poor economic policies often resulted in political chaos that became self-perpetuating and drew inspiration from a number of sources to achieve a forced change of government. A reason why no particular explanation of the policy choices may hold in political economy terms is derived from the fact that for each of the earlier explanations proffered, there are enough exceptions to make it not wholly true. An example is the obvious devotion of the Busia regime to rural development projects, a fact that runs strongly against the *urban bias* argument. It would appear that after the bold and yet wrong experiments of Nkrumah, other regimes failed to take the initiative and simply allowed the economy to drift.

3.3.4 Corruption

To what extent did corruption contribute to the mismanagement that has characterised Ghana's economic history of the pre-reform era. The history of independent Ghana is replete with many cases of corruption in all the regimes, both civilian and military. It is noteworthy that each new government in Ghana has accused the one it replaced of massive corruption.

The famous 'dawn broadcast' of Nkrumah in April 1961 signalled his disenchantment with corruption in the top echelon of the party, leading to the removal of some the most trusted ministers from the government. Indeed, Fitch and Oppenheimer (1966) made a lot out of corruption during the Nkrumah years, suggesting that local political elite bled the nation from within while foreign enterprise did the same from outside.

Gyimah-Boadi and Jeffries (2000) have an interesting discussion of why corruption became so pervasive in Ghana and the link between that corruption and the economic policies of the pre-reform years. Referring to the second military regime of 1972-79 they raised the question: “Why, then, did Acheampong and his colleagues in government become so corrupt?” They then answered it as follows: “This was largely, one might argue, because of the way in which government policies and regulations, initially adopted for reasons of 'urban bias' and economic nationalism, structured incentives so as to encourage rent-seeking and thereby over time induced a process of political decay. There were, after all, enormous windfall profits to be made out of gaining access to import licenses and to foreign exchange at official rates of exchange, then selling imported goods on parallel markets at rates of exchange 5 to 10 times higher. Over time, government officials charged with allocating import licenses and foreign exchange understandably started to demand a share of such profits, in the form of kickbacks, for themselves. Members of the junta, realising what was happening, then attempted to monopolise such allocation as much as possible in their own hands” (pp.38).

In effect, as economic policies failed to yield desirable outcomes, they created an incentive for corruption because of the political instability that they generated. For many bureaucrats the only way to contain failed policy outcomes that had negative implications for their well-being was to be corrupt. Politicians had greater opportunity to be more corrupt and seized the opportunity. Obviously the proposition suggests that corruption was not necessarily the cause of poor policies but largely a consequence of it. This naturally begs the question of how such corruption affects future policy making. The suggestion is that a vicious circle is created. The interesting thing about corruption is that it creates its own dynamics, and becomes the most visible measure of failed policies. Since the public perception of high corruption is likely to lead to an active support for change in the political leadership, that is what has always provided the immediate rationalisation for forced changes in government. For every forced change of government, corruption has been listed as one of the major reasons (see also Collier, 2000).

4. ECONOMIC POLICIES AND PERFORMANCE IN A LIBERAL REGIME

In section 3 we showed the policies and institutions that led Ghana on to a path of self-destruction, beginning from the 1960s. Aryeetey and Tarp (2000) have observed that “It moved from being a country that at independence in 1957 could be classified by international standards as a middle-income country with a relatively well educated population, into a low income country that could barely feed itself by 1982. An economy that appeared buoyant in the early 1960s, with growing output, hardly any inflation, large international reserves and a position as world leader in cocoa production and export, gave way to one characterised by severe macroeconomic instability and major distortions that incapacitated production and wiped away incomes”.

It is important to acknowledge the fact that the pursuit of liberal economic reforms later was not simply the consequence of poor domestic economic conditions. While the downward slide of the economy and political instability reflected the corruption and poor economic management, we need to point out the number of disastrous exogenous shocks that were experienced prior to reform. They included (i) the 1983 drought, which was the worst in decades, and the subsequent need to import large quantities of food on commercial terms and the negative impact on the production of hydroelectric power; (ii) the return in 1983 of more than a million Ghanaians, who had been working in Nigeria during the oil boom; and (iii) a drastic fall in the international terms of trade in the early 1980s due to the drop in cocoa prices and rises in oil prices.

Leechor (1994) has indicated that while exogenous shocks of this magnitude would have been difficult to absorb in any event, their effect in Ghana was worsened by the considerably weakened state of the economy. Further reflection of the poor state of affairs was found in the intensified capital flight and the large numbers of educated labour force that emigrated. Perhaps what prompted the society to sit up was the fact that income *per capita* reached its lowest point in 1983, at a level much below that of 1970. Both agricultural and industrial production were at the time in conspicuous decline, and gross domestic savings and investment levels averaged no more than approximately 5% and 4.3% of GDP, respectively, during the early 1980s. Government revenue had fallen from about 20% in 1970 to less than 5%, making it impossible for the state to offer any meaningful social services. The macro situation was therefore literally begging for some reform. Thus, in spite of previous populist/marxist leanings, the Rawlings government recognised that fact that it had little choice in the matter and that "fighting corruption in the context of extreme scarcities and distortions was essentially a lost cause" (Leechor, 1994). The government proceeded to reactivate negotiations with the IMF and the World Bank. Subsequently, the first stage of the ERP-stabilisation and structural adjustment programme was quickly agreed on in April of 1983.

But, as we pointed out in Section 2, the reforms led to an initial period of steady good growth after stabilisation, which could not be transformed into sustained growth and structural transformation in the medium-term. We examine here the policies and institutions that accounted for this and the markets in which these occurred.

4.1 Market Institutions for Reforms

In pursuing the reform strategy of liberalising the economy and instituting market mechanisms for all transactions as much as possible, it is important to also emphasise the point that the extent of liberalisation pursued varied from market to market.

4.1.1 Labour Market Policies and Structures Under Liberalisation

As indicated earlier, the labour market in Ghana is highly segmented, as with other factor markets. This suggests that any discussion of liberalisation of the market has to be appropriately qualified with respect to specific segments. But whereas liberalisation will generally be associated with formal segments of the market, it is still not clear which aspects of the formal labour market can be described as liberalised. This is in view if the considerable importance that labour unions play in the wage determination process as well as in the employment of labour in both public and private institutions.

The notion of a minimum wage has not changed with economic reforms. Neither have the institutional arrangements for negotiating the minimum wage and other elements of the collective agreements. Boateng (1997) observed from a survey of about 100 firms in Southern Ghana that about 73% of formal sector workers were covered by collective agreements, which were reviewed at least once every two years. He also observed that about 37% of collective agreements contained clauses that allowed "inflation-indexation". Presumably the indexation of wages against inflation was a variation introduced to offset expected price developments following the adoption of a more liberal policy stance. Indeed the labour market remains the least liberalised in the era of reforms.

A major development that affected the labour market was the retrenchment and redeployment of large numbers of public service workers. The size of the Cocoa Board's payroll was slated to be reduced from 100,000 to 50,000. The civil service lost 36,000 jobs by the same token. What is interesting about the reforms and retrenchment is the fact that the labour market did not react to the radical changes that were taking place. Jeffrey Herbst (1991) describes the reaction of the market as the outcome of a 'politics of acquiescence'. Political acquiescence is explained by the support the government lent to revolting trade unionists to usurp authority in the unions and thereby absorbing them into the political fold. Thus, being part of the structure that developed policies, labour lost its clout as a market operator.

4.1.2 Credit Market Institutions Under Liberalisation

By the beginning of the 1980s, banks needed re-capitalisation after years of poor asset management and non-repayment of loans given to state-owned enterprises. Despite nominal efforts to channel credit to small farmers and entrepreneurs, the state had become the largest beneficiary of a financial system that had become primarily an instrument of taxation (Nissanke and Aryeetey, 1998). The regulatory and supervisory environment was generally acknowledged to have been poor prior to reform, leading to many of the difficulties that the financial system encountered (Popiel, 1994). Poor regulation and supervision were partly blamed for the large of number of non-performing assets found on the books of banks in the 1970s and 1980s. The enforcement of banking regulations was ineffective as supervision only tended to focus on the banks' condition at a point in time, rather than on strengthening management systems. Usually, the number of staff in the central bank's Examination Department was insufficient, and they did not have the skills needed to carry out comprehensive examination procedures (Popiel 1994).

When the reforms began, directed credit was deemed ineffective in achieving its objectives, and liberalisation of financial markets was considered to be essential (Adams 1984; Caprio et al. 1994). Hence it was clear to Ghanaian policymakers both that controls were proving ineffective and that liberalisation would be necessary to obtain the international assistance needed to finance balance of payments and budget deficits.

In broad terms, the financial sector reforms have been based on the two fundamental premises of liberalisation and balance-sheet restructuring, while some effort has been made to strengthen the regulatory framework. The full extent of reforms has been influenced by the portfolio position and the asset quality of financial institutions, as well as by government financing requirements and the general fiscal profile from year to year. In a number of cases extensive restructuring and re-capitalisation operations were mounted for distressed banks. With reforms, the limited privatisation of a number of banks has taken place. Indeed, state control over banks has been reduced considerably.

Interest Rate Liberalisation

The withdrawal by the monetary authorities from a direct determination of lending and deposit rates was the major reform in the financial sector. This happened at the same time that government became interested in indirect monetary management for macro-economic stabilisation. Thus, banks were permitted to set lending and deposit rates in response to credit supply and demand conditions. While other African countries pursued similar reforms, Ghana's removal of restrictions on lending was much more rapid than it was in most other countries (Soyibo 1997).

Removal of Credit Ceilings and other Quantitative Controls

Under the reforms, government increasingly came to regard indirect monetary control to be preferable to direct methods. The benefits were expected in the areas of liquidity management; providing non-inflationary finance for short-term government financial requirements; and providing central banks with market-based mechanisms of determining rediscount rates. But, as we noted with the discussion on interest rates above, there has been difficulty achieving those objectives. We will show later that credit supply to a number of productive sectors has suffered greatly as banks have sought only those activities with the highest and quickest returns.

Restructuring and Re-Capitalisation of Banks

In order to correct the situation described earlier, restructuring became a major component of the reform programme. Bank restructuring, the legal and regulatory framework, and the supervisory capabilities of the central bank became the core of World Bank-funded Financial Sector Adjustment Programs (FINSAP). Re-capitalisation of banks in difficulty was also a major component of reform here. This affected mainly state-owned development banks and commercial banks. For many it had been difficult to meet capital adequacy requirements for many years. Re-capitalisation often involved government borrowing from international development agencies and putting pressure on other shareholders to meet new obligations following restructuring.

The Banking Law was amended to provide a stronger prudential base in terms of minimum capital, reporting and lending guidelines. In 1990 non-performing loans were removed from bank portfolios to a separate recovery agency. That was in exchange for bonds issued by the Bank of Ghana. A new Bank of Ghana law in 1992 provided stronger regulatory and supervisory powers. At the same time, entry of new banks and non-bank financial institutions was encouraged, especially through new laws in 1993 to support development of leasing, housing finance, and nine categories of non-bank financial institutions.

Privatisation of State-Owned Banks

Privatisation of financial institutions usually begun with government actively seeking what is referred to as a strategic buyer to take over majority shares in large commercial banks. This has had very limited success in most cases. For example, after several attempts to secure a strategic buyer for Ghana Commercial Bank and the Social Security Bank the government had to shelve the idea and use the new stock exchange to get ordinary Ghanaians to take over less than 40% of shares. The limited direct sale to the public has led to the private sector's increasing role in the financial sector after reform. We must caution, however, that even though the overall share of public ownership in banking institutions has fallen, the dominant role of the state has not been removed in many places. Aside from the privatisation of state-owned banks, the granting of licenses to the private sector to register financial institutions gathered momentum.

Support for Informal Finance and Microfinance

Even though the strong presence of informal financial units is currently acknowledged in Ghana, the authorities have often had a passive attitude towards them, at best. But the situation is beginning to change, probably as a result of the recognition of the positive roles such agents play in the development of social capital. The changing perception of informal finance is partly drawn from the relatively good performance of the sector in the period of reform.

Another major positive development in the financial market in the last decade has been the emergence of a number of semi-formal Non-Bank Financial Institutions (including NGOs), that reach out to smaller borrowers and depositors (Nissanke and Aryeetey 1998). These are often described as microfinance units.[6] The growth of microfinance in Ghana and the rest of Africa is very interesting.

Aside from informal finance, there is also some development of what may be described as semi-formal institutions, including microfinance institutions. In the mid-1990s, *susu* clubs emerged as privately-run savings and credit associations. NGOs also moved increasingly into financial activities, with innovations such as the inventory credit scheme of TechnoServe, which enabled farmers to set aside part of their crops during harvest season for credit which could be repaid by selling the crop at a higher price during the off season. The Ghana Microfinance Institutions Network (GHAMFIN) has been

[6] Microfinance refers to the "small but growing number of specialised financial institutions that use innovative delivery methods to extend the financial services market" (Berenbach et.al. 1998). "Micro-finance institutions consist of organisations and agents that engage in relatively small financial transactions using specialised, character-based methodologies to serve low-income households, small farmers and others who lack access to the banking system. They may be informal, semi-formal (that is, legally registered but not under the central bank regulation), or formal financial intermediaries" (Steel 1998, p.7).

in the fore of attempts to develop pilot on-lending schemes between a number of formal/semi-formal organisations and the informal operators (GHAMFIN 2001).

4.1.3 The Structure of the Land Market in a Liberal Era

The land market in both rural and urban areas has not changed in structure since the economic reform programme began. This is due largely to the fact that, as indicated, there is no free land market, largely as a result of the land tenure arrangements. The decision to put land on the market is often unrelated to demand and supply conditions.

While some tend to see the absence of a liberal land market as an impediment to investment in land, there tends to be a growing view that access to land for both commercial agricultural and industrial development is seldom impeded by traditional land ownership and control arrangements.

4.1.4 The Structure of the Goods and Services Market in a Liberalised Regime

One of the most conspicuous elements of the economic reform programme was the liberalisation of the goods and services markets through the adoption of greater openness strategies. The liberalisation of the trade regime opened up the market to imports. This was followed by direct attempts to support the production of goods for exports, particularly, non-traditional exports.

Market Agents

The supply side of the market for manufactured goods in Ghana is divided between medium-large enterprises and small scale enterprises. The industrial census of 1987 indicated that 76.4% of all medium and large-scale enterprises were privately owned. Some 59% of these owners were Ghanaians while joint Ghanaian-foreign ownership was available for 38%. Thus complete ownership by foreigners was for only 2% of the medium and large-scale firms. A survey by Baah-Nuakoh and Steel (1993) suggested that the level of education of entrepreneurs was not very high, as only 28.6% of surveyed business managers/owners of medium/large enterprises having had university education.

Small-scale enterprises are dominated by beverage and motor vehicle industries (mainly repair), with food, textiles, garments, sawmilling and furniture in secondary positions. The 1987 industrial census suggests that, out of the 4,802 small enterprises counted, only 11.4% were in the food processing sub-sector, 31.4% in textiles and garments, 21.2% in the wood products sub-sector and some 11.3% in the metal working sub-sector. The production structure of the sector does not seem to have changed in three decades (Steel et.al. 1994). Applied technology in small-scale industries is regarded to be less modern than in larger enterprises and additions to their capital assets tend to be far less rapid than those of microenterprises[7]. In any case the amount of capital equipment required for setting up small

[7] Results from Baah-Nuakoh and Steel (1993) survey.

enterprises was on the average 12 times that of microenterprises. Steel and Webster (1991) noted that capacity utilisation levels tend to be generally higher for small scale enterprises than for the medium/large group. Among the newer small firms, a level of 42% was noted on average as against 27% for the medium/large group in 1991. Most small enterprises are sole proprietorships and tend to disappear upon the retirement or demise of the owner. The lack of continuity may be seen as an impediment to the long-term development of small-scale industries.

Trade Policy Reform to Achieve Greater Openness

The major reform policies that have affected the production of manufactured goods has been the liberal trade policies and supporting structural support for industries. The expansion of the non-traditional export sector was an important component of the overall strategy to reduce the foreign exchange constraint on the economy. In contrast to the earlier period, trade policy was conducted within the context of a continually adjusting exchange rate. Import tariff rates were adjusted downwards in 1983. The schedule of tariffs remained fairly stable until 1986 when the import duties on consumer goods was reduced from 30 % to 25 % and the sales tax on luxury imported goods reduced to 20% from 50%. The set of incentives announced in 1983 for the non-traditional export sector did not differ significantly from the earlier ones. The main difference was the removal of the export bonus scheme of the export promotion programme when the bonuses and surcharges were announced.[8]

The foreign exchange retention scheme was liberalised further in 1987 when the percentage of export earnings that could be retained was increased from 20% to 35%. Restrictions on the use of the retained earnings were relaxed over time. A wholesale foreign exchange auction replaced the retail auction in 1990. An inter-bank market replaced the auction in 1992. Unification of the exchange rate regime through the virtual disappearance of a wedge between the nominal and parallel market rates was achieved by 1992. However the real rate began to appreciate in 1990 and remained appreciated compared to its 1989 values until 1993.

The import licensing system was abolished in 1989 when it became redundant following the developments in the exchange rate system. The import licence levies were also removed in 1989 when import licensing was abolished. Further liberalisation of the

[8] The second stage of the trade liberalisation process began in 1986 with the reintroduction of a formal dual exchange rate system. The rate at the first window was the prevailing official exchange rate set in January of that year and governed the purchase of essential raw materials, crude oil, all official transactions and cocoa earnings. The rate at the second window was determined by weekly foreign exchange auctions organised by the Central Bank. The official exchange rate market was unified in early 1987 when all transactions were made subject to the auction rate. In 1988 the exchange rate system was liberalised further with the establishment of foreign exchange bureaux that allowed individuals to trade freely in foreign exchange at the spot rates. The real exchange rate depreciated and the gap between the nominal and parallel exchange rates was reduced.

import regime occurred with the decline in import tax rates on raw materials and capital goods by 5 percentage points in 1990.

Since 1994, there have been no major trade policy reforms. On the other hand, under the Trade and Investment Programme, there have been a number of revisions to import procedures. These cover basic importing steps, clearing processes, import documentation and other documents supporting customs entry forms, mode of payment, and duty and tax relief. Some of these reliefs covered exemption from duty on capital goods, exemption from duty raw materials imported for the manufacture of pharmaceuticals and other chemicals products, facilities for bonded warehousing and the temporary importation of goods that are re-exported within three months of entry.

Industrial Sector Development Support

Industrial sector support has come by way of attempts to improve the environment in which economic agents operate. As in the pre-reform period, industrial promotion is not sector-specific. Assistance to the manufacturing sector is thematic rather than sector specific. For example there are programmes to assist small-scale enterprises and non-traditional exports irrespective of the sectors they are located in, as has always been the case. Under the ERP, the policy focus has been on improvement in the incentive structure using the exchange rate and trade taxes, privatising the state owned enterprises (S0Es) and streamlining the regulatory framework. With trade liberalisation as an important instrument of industrial development, the reduction in tariff rates and removal of quantitative restrictions were expected to increase competitiveness and efficiency in the manufacturing sector. In recent years, the concern has been to ensure that the import tariffs and domestic taxes did not place domestic industry at a disadvantage.

To improve the regulatory framework, the 1971 Manufacturing Industries Act, 1974 Price Control Decree and the 1976 Control of Sale of Specific Goods Decree were repealed. A new Investment Code was enacted to encourage foreign direct private investment. Measures have been introduced to streamline investment procedures.

Privatisation of the SOEs has been applied to stop the flow of the state's resources to loss-making -enterprises. It is also a means of improving the environment for private sector participation. But the policy towards the manufacturing sector has suffered from similar shortcomings as the agricultural sector. The emphasis has been on liberalisation and not enough on addressing the non-price issues. The policy premise has been that since the protective trade regime had encouraged inefficiency, once increased competition was introduced through trade liberalisation, the sector would become leaner and more efficient. However, years of protection and lack of competition as well as stagnation due to import strangulation had weakened considerably the production capacity of the manufacturing sector. The sector has been unable to compete effectively in the new liberalised environment because of obsolete machinery, outmoded production practices and inadequate management techniques. The manufacturing sector needs to be re-invigorated and getting prices right is obviously not enough to correct the problem.

Agricultural Sector Development Support

The initial objective for the agricultural sector under the ERP was to revitalise the export crop sector. Other main objectives were to achieve self-sufficiency in the production of cereals; to maintain adequate levels of buffer stocks of grains, particularly maize and rice; to ensure price stability and the provision of maximum food security against unforeseen crop failure and other natural hazards; and, also to increase foreign exchange earnings from agriculture through incentives to cocoa farmers. The main feature of agricultural policy was the increase in output prices, with the highest increases for cocoa. Subsidies on input prices, particularly, fertiliser, pesticides and farm equipment were eliminated. Reform of public agricultural institutions led to the reduction in budgetary costs to the government of the large parastatal sector and a drastic redundancy programme for the Ghana Cocoa Marketing Board. With the help of the World Bank, the Agricultural Services Rehabilitation Project (ASRP) was implemented. It was aimed primarily at rehabilitating agricultural services to enhance the achievement of government policy objectives in agriculture.

In the second phase of reforms launched in 1986 agriculture received considerable attention. The programme emphasised increased productivity and internal price stability in the agricultural sector. The government actively promoted cereal production in pursuit of food security objectives. It also raised the guaranteed minimum price for maize and rice every year and subsidies on farm inputs such as fertilisers, machinery and other agricultural chemicals continued, though on a much reduced scale.

Institutional reforms were also intensified in the cocoa sector during this phase. The Cocoa Sector Rehabilitation Project was implemented with World Bank financing. The main objective was to increase efficiency in the sector with respect to production and marketing. This involved the reduction in the size of the Cocoa Board and the passing of a greater share of the world price of cocoa to producers.

4.2 Micro-Level Evidence of Policy Outcomes after Economic Reforms

The period 1983-2000 has seen some of the more controversial discussions of the economy of Ghana (Aryeetey et.al. 2000). There is indeed growing consensus that while the economy has experienced considerable policy reform, particularly in the period 1983-1991, the structure of the economy has seen very little change and its performance is not significantly different from the two decades before the reform (Aryeetey and Harrigan 2000; Killick 2000). The situation is not too different from what Easterly (2001) finds for developing countries in general. He wrote "for whatever reasons, the response of developing country growth rates to the policy reforms of the 80s and 90s has not been what could have been expected from previous empirical work on growth. Zero *per capita* growth is a disappointing outcome whatever the cause" (pp.7). He shows that a number of factors that would be expected in a growth regression to facilitate growth have failed to lead to growth in many countries. What we will show in this section is a situation where significant growth occurred soon after reforms began, but then did not to show any such improvements after the initial period, drawing out growth figures that were not always explained by the underlying structures.

4.2.1 Labour Market Performance after Reforms

The important question here is 'did the market expand with reforms and growth?' and 'did market developments reflect changes in productivity?'.

Employment

One of the developments that have generated the most controversy is the absence of a corresponding growth in employment as output growth figures went up. Indeed, the most dramatic decline in formal agricultural employment came after 1985 with the redeployment programme initiated in the cocoa sector and through which over 10,000 employees of the Ghana Cocoa Marketing Board were retrenched. Despite the fact that output of the mining and quarrying sector expanded steadily after 1983, formal employment levels in that sector declined from 24,000 in 1983 to 17,100 in 1991, due largely to changes in the applied technology in surface mining, particularly among the new companies, and personnel rationalisation among the old companies. The construction industry also suffered drastic decline in its share of employment, from 18.6% and 12.6% in 1960 and 1970, respectively, to only 4.2% in 1991. Most of the employment in the construction industry has shifted into the informal sector after the partial liquidation of the State Construction Corporation and the down-sizing of the Public Works Department and the State Housing Corporation (now privatised).

What became obvious was the rapid growth of informal employment. The share of the informal sector in total non-agricultural labour force is estimated to have increased from 70% to over 90% between 1970-90, with retail trade and restaurants accounting for 50%, manufacturing 37% and other services 13% (Boateng 1997). Boateng explains the growth in informal sector employment with the slow growth in formal sector employment, and especially public sector retrenchment which started in 1987. Given the fact that formal sector jobs receive an earnings premium it is reasonable to suggest that most of the employment in the informal sector are "secondary" and "residual" in nature.

Using the residual or surplus labour approach, Boateng (1997) has estimated aggregate unemployment rates for the period 1982-95 shown in Table 4.1.

Table 4.1: Estimates of Unemployment Rates in Ghana 1982-90

	Estimated Labour Force	Overall Unemployment Rate	Formal Sector Unemployment Rate
1982	5,923,774	19.8	7.4
1983	6,108,485	27.2	7.0
1984	6,242,594	24.1	4.8
1985	6,384,464	23.3	4.8
1986	6,560,279	23.6	5.5
1987	6,694,530	22.9	6.6
1988	6,896,231	22.2	8.3

1989	7,097,359	22.6	10.7
1990	7,285,365	23.3	12.0
1991	7,479,157	22.6	13.7
1992	7,673,645	23.5	n.a
1993	7,883,226	23.1	n.a
1994	8,138,630	24.4	n.a
1995	8,423,203	25.2	n.a

Source: Labour Force figures from UN Demographic and African Statistical Yearbooks.

Trends in Wage Levels

Nominal wages increased by 6.4% per annum between 1981 and 1991. However, Boateng (1997) has indicated that nominal wages varied in terms of magnitude and effect on employment performance among the various economic sectors. He suggests that the financial sector was the only sector in which growth in nominal wages was associated with a positive change in employment levels between 1981 and 1991. Employment fell in absolute terms in all the other sectors.

While it may be argued within the competitive framework that minimum wage legislation affects employment adversely, especially among the less educated and new labour market entrants, the evidence in Ghana shows that many employers actually pay far above the statutory minimum wage. This may suggest that legislation is ineffective for the large formal sector. Boateng (1997) suggests that minimum wages have fallen relative to the average earnings in the formal sector since 1981, from a ratio of 61% to only 32%.

An important development in wage structures in Ghana is the narrowing gap between public and private sector wages. Between 1988 and 1991 the overall ratio of public sector wages to private sector wages improved from 68.2% to 93.7%. This "improvement" is due largely to two factors: the retrenchment of low-wage, marginal workers in the public sector, especially in agriculture, and the privatisation of the more productive state-owned enterprises. However, it is observed that workers in the public financial institutions receive at least 50% less than the average in the private financial sector. This development may hurt capacity building in important public institutions such as the Bank of Ghana.

Productivity

With regard to changes in productivity, a study by Gyan-Baffour et.al (2000) suggests that there is very little indication of productivity changes since reforms began. Labour productivity measured as value-added per employee was determined by capital-labour ratio, wages and capacity utilisation. Their study indicated consistent technical retrogression over time in the manufacturing industries that they studied which reduced capacity utilisation in many businesses. As capacity utilisation went down so did productivity. But earlier studies, e.g. Steel and Webster (1991) showed that capacity utilisation went up considerably in the early reform years, which also improved labour productivity. Obviously the later slow down in capacity utilisation arising from low demand does account for the low productivity that Collier et.al (1999) identified and linked to real wages. But there is also some more empirical evidence, based on a survey carried out in 1992/93, of 70 large and medium scale manufacturing enterprises (Acheampong, 1996; Acheampong and Tribe, 1997) that labour productivity has increased following the introduction of the ERP. The main factors responsible for the increase in productivity were the restructuring of firms, increased capacity utilisation, the retraining of labour, the re-organisation of labour to undertake new tasks and increased capital per worker. Obviously the issue remains unresolved.

4.2.2 Credit Market Performance after Reforms

By 1996, private investment was only 2% of GDP, having declined from 8.7% in 1991. Whereas it was easy and credible to attribute low private investment in the 1980s to the uncertainty surrounding the economy (Aryeetey 1994), it is today more appropriate to explain low private investment with other factors, including the growth rate of real credit (Asante and Boateng 2001). Indeed many surveys since the mid 1980s have also suggested that the dearth of credit is a major explanation for weak investment growth.

The banking system still has major problems despite financial sector reforms. It is still characterised by a heavy concentration of assets in the short end of the market and the prevalence of non-performing term loans (Nissanke and Aryeetey 1998). Moreover, the main malfunction of the banking system manifests itself in a lack of information production and facilitation of governance and control for the commercial sector. There is limited monitoring of the activities of borrowers, poor enforcement of collateral, and lack of enforcement of lender's rights for *fuller disclosure* of financial information about borrowers.

The information and enforceability problems, along with the prevalence of financial distress and bank failure, have serious consequences. In particular, they result in adverse selection, where weak banks attract disproportionately high risk and weak enterprises (e.g., state-owned companies) which see no problem in borrowing at high interest rates and bet on a small probability of good outcomes. Such a weak banking system breeds instability and even undermines government policies, such as the conduct of monetary policy (Camen, Ncube, and Senbet 1996).

Formal Institutional Developments and Competition after the Reforms

The new policy and legal environment has stimulated the entry of a variety of both bank and non-bank financial institutions (NBFIs). Two private merchant banks and a stock exchange were licensed in 1990, and a commercial bank in 1991. In the last year, two new banks have begun operations while two older state-owned banks have been closed down. There are currently 17 banks in Ghana as against 11 at the start of reforms.

The 1993 Financial Institutions (Non-Banking) Law fostered the entry of four leasing companies, two savings and loan companies, two building societies, a venture capital company, a finance house, and a mortgage finance company by 1995, in addition to the two discount houses that had already been established in 1987 and 1991.

The new NBFIs introduced a wider variety of financial products to compete with commercial banks, which have, at best, only re-packaged their traditional financial products of current accounts, savings accounts, time deposits, and a select number of bonds and bills. But the formal NBFIs are competing largely for the same large-scale clients of the commercial banks, with relatively little impact in broadening the range of clients with access to formal financial services.

Interest Rate Developments

The entire interest rate structure--treasury bills, bank lending rates, and deposit rates--initially moved upward during 1984-1987, then stabilised in 1988-89 . But excess liquidity remained in the system, and treasury bill rates rose substantially in 1990-91 in an effort to bring down inflation, while banks lowered their deposit rates. The result was an increase in the interest rate spread. Indeed, the financial system is characterised by high rates of interest and shrinkage of commercial lending by banks, in favour of bank holdings of government securities. The issue of steady rises in lending rates under different monetary and fiscal regimes continues to be one of the most interesting outcomes of financial sector reforms. While the spread subsequently narrowed somewhat, it remained relatively high, contrary to the expectation that increased competition and productivity among banks would lead to greater efficiency and lower spreads.

But the expected impact of a liberal interest rate regime on the monetary situation has been seldom achieved as the ability of the monetary authorities to achieve set targets has often been compromised by an ineffective broader policy environment (Roe and Sowa 1997; Nissanke and Aryeetey 1998). In the presence of a shallow financial market and a poor development of the money market, rising interest rates have often quickly led to a credit crunch, and in many instances to considerable excess liquidity, i.e., situations in which banks voluntarily increased their holdings of liquid assets on a large scale. Indirect monetary management has been difficult, with some improvements only being observed in the last year.

It is obvious, however, that an unstable macroeconomic environment will not be very helpful to financial sector reforms. The macroeconomic environment has remained quite fragile. This continues because various external shocks and political pressures often lead to a breakdown of fiscal and monetary discipline. Unable to restrain inflation, which until recently exceeded 20% annually, achieving positive real interest rates has been difficult, despite rising nominal rates.

Financial Deepening

Figure 3.1 showed quite clearly that the usual indicator of financial deepening for developing nations, the M2/GDP ratio showed little improvement after reforms and is still not close to the levels of the early 1970s. The M2/GDP ratio averaged 17% in 1990-96. The more baffling problem is that it has consistently remained less than the African average of almost 25% for the last decade (See Table 4.2). This is an indication of continuing problems with savings mobilisation.

Table 4.2: Money and Quasi Money (M2) as % of GDP

	1980	1990	1996
Benin	17	24	23
Botswana	26	26	25
Cameroon	21	23	13
Cote d'Ivoire	27	29	27
Ethiopia	..	37	40
Ghana	16	15	19
Kenya	30	27	41
Malawi	18	18	15
Mozambique	..	40	32
Nigeria	24	19	17
Senegal	27	23	20
South Africa	50	54	54
Tanzania	..	19	23
Uganda	13	6	10
Zambia	28	20	16
Zimbabwe	31	28	26

Source: World Bank, 1998 World Development Indicators, Washington DC.

The trend is not much different with respect to credit allocation. The availability of credit to the private sector remained low (averaging about 4% of GDP during 1987-92, compared to 50% in Indonesia. Indeed the Credit/GDP ratio has shown no clear upward trend despite spurts of growth in private lending. Even among African countries credit allocation to the private sector in Ghana is one of the lowest and commensurate with the size of the economy. This is currently largely a result of crowding-out by the public sector.

Although the public sectors' share in domestic credit has declined, government and public enterprises for long continued to receive the largest proportion of bank credit. Thus, despite a reduction in the claims of commercial banks on the government and the public sector, lending to the public sector has remained very important to this day. (See Table 4.3). The sharp drop in 1996 for government credit was due to a special effort to control inflation by enhancing private sector production following major criticisms of government, but this went up again in 1997.

Table 4.3: Distribution of Total Domestic Credit in Ghana (%)

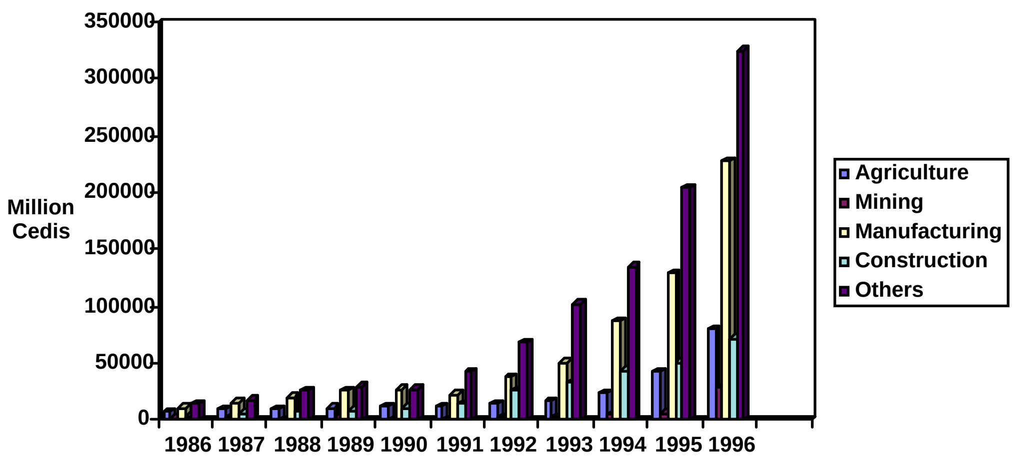
Year	Central Government	Public Enterprises	Private Sector	Financial Sector
1986	64.2	16.9	15.5	3.2
1987	76.4	9.8	11.4	2.4
1988	75.8	4.13	16.9	3.2
1989	45.2	16.9	34.1	3.7
1990	47.1	11.8	37.4	3.5
1991	68.7	12.0	19.3	--
1992	68.3	10.8	20.7	--
1993	72.8	8.8	18.4	--
1994	62.7	14.7	22.6	--
1995	60.6	12.8	22.6	--
1996	21.5	16.2	62.3	--
1997	39.1	6.1	54.8	--
1998	38.5	5.0	56.5	--

Source: Compiled from Bank of Ghana Data.

The development banks showed the most significant change in the composition of assets following reforms, reflecting their previous difficulty in matching assets with liabilities. They gradually diversified their portfolios by reducing the volume of loans with maturities over three years by 20% from 1988 to 1991 in favour of short-term loans.

The sectoral allocation of loans and advances has continued to shift steadily away from agriculture, which fell from over 30% in 1983-84 to under 10% in 1992-93. (See Figure 4.2). The share of manufacturing rose at first from around 20% during 1980-83 to over 30% in 1988-90, but then fell back to around 25% of total. Commercial bank credit went overwhelmingly to large enterprises, estimated in one survey at 74% of the loan portfolio (Aryeetey 1996).

Figure 4.2: Sectoral Distribution of Credit After Reforms



Efforts to strengthen the banking system through stricter portfolio quality requirements by the Bank of Ghana may have restricted the access of SMEs by leading to increased centralisation of decision-making (at least initially) and greater risk aversion. Many banks have indicated that collateral requirements could be relaxed if a sound loan insurance or guarantee fund were available (Aryeetey et al. 1994), though experience suggests that such schemes have negligible impact because banks lack confidence in them, demand excessively high coverage, and do not substantially change their attitude toward SME clients.

Essentially, the functions of savings mobilisation and financial intermediation have not fully recovered since reforms were initiated (Nissanke and Aryeetey 1998). We have suggested that widespread objective risk continues to be a major feature of the market and the infrastructure for financial service delivery has only improved in some segments of the market, with the environment for regulation and supervision remaining inadequate. Most banking institutions have not developed the capacity of risk-management and still operate with an inadequate information base. This trend fits the description by Caprio et.al. (1994) as characteristic responses to liberalisation attempts, where banking institutions had been previously shielded from market forces by government intervention. They predicted two different possible responses from banks: The first is to avoid all but the lowest risk. The second is a reckless expansion of lending, even to insolvent clients. Recent experiences in Ghana confirm both types of behaviour as we will see below.

Money and Capital Markets Development

While it has always been known that the creation and development of active money and capital markets could considerably broaden the opportunities for diversification for both savers and investors and provide an avenue for active liquidity management by financial institutions and monetary control by the central banks, the process of erecting them has been fraught with numerous problems. Hence, despite the fact that the shift in monetary policy from direct credit control to indirect control required an operative money market to be effective, the development of such a market has not gained the same prominence as the other components of reform mentioned earlier. The two discount houses that were set up between 1987-91 received assistance from the IFC to be inter-bank intermediaries for short-term assets and provide a secondary market for commercial paper. Their principal portfolios are in Bank of Ghana bills, Treasury Bills, Cocoa bills, Grain bills, bankers acceptances, negotiable certificates of deposit and government stocks. Interestingly, commercial papers have featured very little while central bank bills and government papers account for about 90% of their assets.

A major reason for the poor functioning of the money market is government financing approaches. The practice of government issuing in large quantities very high-yielding bills to meet fiscal requirements needs to be seen as a problem. Indeed, so long as banks have access to inexpensive and unlimited loans through central bank discount facilities, inter-bank borrowing and lending are unlikely to be attractive.

The Ghana Stock Exchange began operations in 1990. While it is growing faster than some of the other 16 new stock exchanges springing up all over Africa, it remains largely insignificant for international and national capital flows. The ratio of market capitalisation to GDP is dramatically low at 1.2 %, compared to 6.15 % in Cote d'Ivoire, 5.17 % in Kenya, 50 % in Chile and 114 % in Malaysia. Activity is sluggish with a turnover ratio of 0.5, compared to 2.2 in Kenya. The market is even narrower than the number of listed companies or turnover would suggest. Of the thirteen companies listed in Accra, three represent two-thirds of the market capitalisation (four, if only securities sold to the public are taken into account). One of these companies also represents 40%.

Informal and Microfinance Institutions

Informal financial institutions flourished during the reform period (Aryeetey 1996). The increase in informal financial sector activity and competition was associated more with the increase in real sector activity during the adjustment period than with financial policy reforms *per se*. That is, increased activity in markets due to elimination of controls and increased foreign borrowing meant that traders had more money to save and to lend (either to business clients or to borrowers). There appears to be greater diversification in activity among some informal institutions in attempts to reach out to more borrowers than is observable among formal institutions after reforms.

The evident ability of the informal sector to capture much of the increased economic activity runs counter to the expectation of the financial repression hypothesis that financial liberalisation would lead formal financial markets to deepen while weakening informal financial markets. The explanation is that Ghana's financial market remained dominated by imperfections due to lack of information, difficult contract enforcement, and inadequate risk management instruments. The specialised, character-based techniques of informal financial institutions continued to give them a comparative advantage in managing the costs and risks of small transactions with the majority of the population.

In sum, the situation on the credit market can be summed up as follows: Despite impressive institutional expansion and modernisation, financial product development continues to be slow and narrow, while the delivery of such products is has very limited coverage; savings mobilisation efforts have yielded inconsistent outcomes; credit delivery remains the archilles heel of the financial system; failing banks and banks in distress continue. In effect, while the reforms opened up the financial market, consistent with thinking on the negative effects of financial repression, they also exposed weaknesses in the regulatory infrastructure.

4.2.3 The Performance of the Goods and Services Markets under Liberalisation

We discuss in this section the extent to which the liberal economic policies facilitated the expansion of the goods and services markets. One clear effect of liberalisation on the goods and services market was the rapid expansion of that market, largely through imports.

The Performance of the Manufacturing Sector

The reform programme brought about change in the performance of the manufacturing sector. After years of steady decline, real manufacturing GDP saw positive growth rates from 1984, but at a decreasing rate after 1988 (Asante et.al. 2000) The initial growth was not sustained and came from a low base. The growth of manufacturing lagged behind that of GDP leading to a declining share of manufacturing in GDP and therefore a lack of inter-sectoral structural change of the type usually associated with development (Nixson, 1990). The decline in the growth rate between 1988 and 1995 has been attributed the fact that while competitive industries continued to grow, uncompetitive ones began to decline or fold up in the more liberalised environment. The slow down in the growth of the manufacturing sector was reflected in the growth rate of the whole industrial sector with industrial growth declining from 12.1% between 1984 and 1987 to 4.4% between 1988 and 1995.

Asante et.al. (2000) conducted statistical tests on the mean growth rates for the manufacturing and industrial sectors which showed that the growth rates were significantly higher for the reform period than for the earlier period. The shares of manufacturing GDP and industrial GDP in total GDP were significantly lower for the reform period as a result of the lagging growth rates of manufacturing and industry behind GDP. A study by the World Bank (1984) showed that 40% of the firms in 1983 had negative value added at world prices. Closing them down would have yielded a net *real* benefit to the country, even though the loss of value added at (highly protected) domestic prices would look like "de-industrialisation"[9]

[9] The debate on whether or not structural adjustment programmes have led to 'de-industrialisation' in sub-Saharan Africa remains unresolved. See Stein, 1992; Lall, 1992; Meier and Steel, 1987 and World Bank, 1994, for conflicting views.

The slowdown in the growth of real manufacturing GDP after 1988 has been worrying. This has been interpreted to mean that while appropriate trade and macroeconomic policies are necessary to support the performance of the manufacturing sector, they are by no means sufficient for sustained high performance in the environment of significant structural constraints. Output growth performance has, however, differed among sub-sectors of the manufacturing sector. The sub-sectors with significantly declined output include textiles, wearing apparel and leather goods, where high-cost, overprotected firms have had difficulty competing with liberalised imports. Those whose output has increased significantly include sawmill and wood products, and beverages which are domestic-resource based

Table 4.4: Mean Output, Shares, and Growth rates in the Manufacturing Sector

	Real	Ind	Man	SHARES			Growth Rates		
	GDP	GDP	GDP	Ind/GDP	Man/GDP	Man/Ind	Ind.	Man	GDP
Period	(Millions of 1975 Cedis)								
71-79	5492.0	1043.8	671.8	9.0	12.3	64.5	-2.0	-1.1	0.4
80-83	5126.2	695.5	462.8	13.5	8.9	65.7	-9.6	-12.0	-3.4
84-87	5563.7	726.9	475.6	13.0	8.5	65.2	12.1	14.5	6.0
88-95	7386.5	1053.9	641.4	14.3	8.7	61.1	4.4	2.6	4.6
Pre-ERP									
71-83	5379.5	936.6	607.5	17.3	11.2	64.9	-4.3	-4.5	-0.8
Post-ERP									
84-95	6778.9	944.9	586.2	13.9	8.7	62.5	7.0	6.6	5.0
T-Stat	4.6***	0.1	0.5	3.7***	4.1***	1.6	3.4***	2.6**	3.5***

*** Significant at the 1% level
** Significant at the 5% level
Source : Statistical Service, Quarterly digest of Statistics, Various Issues

With respect to exports, it may be observed that the large devaluations accompanying the ERP raised the profitability of exporting for a range of activities. As a consequence, a flurry of export activities has been reported among several firms in Ghana, including agricultural equipment, beverages, furniture and aluminium products (Hettige *et.al.* 1991). There was a longer lag in the response of manufactured exports to reform incentives as exports did not register positive growth rates until 1986. Prior to the ERP, diversification of manufactured exports made little headway despite the importance attached to it by successive governments. This changed with reform as there has been some diversification of manufactured exports. Traditional manufactured exports declined to an average of 38.8% between 1984 and 1986. The share increased to 44.5% between 1987 and 1990, suggesting that the diversification which took place earlier was being reversed. On the other hand, the share of food products increased from an average of 1.6% between 1970 and 1976 to 5.1% between 1984 and 1986 but this declined to 3.6% between 1987 and 1990. The possibility of expansion of manufactured exports exists through commodity diversification.

Altogether, the post-ERP performance of manufactured exports has not been impressive despite the substantial improvements in price incentives, implying the importance of other factors. The dominance of a few product groups in exports supports the position that not only macro-policies but sectoral policies will be necessary to increase manufactured exports through an increase in the value of existing product groups and/or through an increase in the number of product groups which are exported. The outstanding problems of the sector include the following :

- Inadequate finance for working capital, rehabilitation and modernisation;
- The large depreciation of the Cedi has eroded the liquid resources which could have helped firms to undertake the necessary investments. In some cases, the depreciation has sharply inflated the Cedi value of debts related to past imports of machinery and equipment;
- the tight monetary policy pursued has increased the cost of credit;
- Some of the enterprises operated under high protective barriers and are now finding it difficult to cope with the liberalised and more competitive market environment;
- macroeconomic instability.

Teal (1995) has also argued that labour regulations, price controls and other obstacles to expansion have constrained output and export growth, especially in the case of wood products which is the major manufacturing export sub-sector. More generally, Teal (1995) argues that government induced market failure explains the failure to develop manufacturing exports. Structural adjustment and liberalisation are not complete in Ghana and government policy continues to have an adverse effect on the output of firms in the exportables sector in particular. (For a recent study that analyses factors responsible for the dismal performance of manufacturing and suggest policies to improve manufacturing competitiveness in SSA, see Fosu, Nsouli and Varoudakis, 2001).

The Performance of the Agricultural Goods Market

The period 1990 to 1995 exhibited a direct relationship between overall performance of Ghana's economy and agricultural growth. For instance, there has been low and wide fluctuations in the growth rate of GDP *per capita* around a declining trend since 1990 largely because the agricultural sector has been performing below expectation. GDP grew by 3.3 % in 1990 but following an excellent performance of agriculture which grew by 4.7 % in 1991, economic growth rebounded to 5.3% in the same year (CEPA, 1996). A catastrophic performance of agriculture in 1992, when it grew by -0.6 %, resulted in GDP growth of only 3.9 %. With significant improvement in food and livestock production, agricultural output in 1993 increased by about 2.8 %, leading to an overall growth in real GDP by 5.0 %. However, flooding as well as the disruptive effects on agricultural activities of ethnic conflicts in the Northern Region and unfavourable climatic conditions during harvest season, brought about decreases in agricultural output in 1994, resulting in GDP growth of only 3.8 %. The agricultural sector experienced an average annual real growth rate of about 2.0 %. While the share of agriculture in GDP remains large it has nevertheless declined continuously in this period, from 43.5% in 1990 to about 41% in 1995. There have obviously been extreme fluctuations in agricultural growth in the 1990s. Apart from 1991 when agricultural sector growth rebounded, largely for climatic reasons, from -2.0 % the previous year to 4.7 %, there has been a general deterioration in the rate of change in agricultural sector output. In 1995 agricultural growth exceeded 4 % again.

Nyanteng and Seini (2000) have indicated that the fluctuations in agricultural growth primarily reflect fluctuations in weather, particularly, rainfall. The same trend is associated with cocoa. They have indicated that agricultural supply response has been weak. While exchange rate reforms and increases in producer price initially helped to increase earnings from cocoa these have stagnated (Sowa, 1996).

4.4 The Political Economy of Liberalisation

The Leith and Lofchie (1993) analysis of structural adjustment in Ghana provides one of the most comprehensive discussions of the political economy of reform in Ghana, situating the discussion deeply in the political and economic history of the country. Other discussions of the political economy questions are found in the volume edited by Donald Rothchild (1991) which covers issues emanating from various sectors of the economy. It is thus possible here to see some of the influences on education sector reform as well as how the rural areas were expected to respond to adjustment. Gyimah-Boadi and Jeffries (2000) provide the latest discussion of the political economy issues, suggesting that while the Batesian approach of studying political economy in Africa may provide a good starting point for such discussions it needs to be complemented with other considerations that go beyond rational choice. One thing that all the various studies suggest is that economic reform had to happen, and by the time it took place the opposition to it had become considerably weakened as a result of the sheer logic of reform in the face of unbearable social and economic difficulties.

4.4.1 The Structure of Political Institutions and Economic Policy

It is interesting that the decision to embrace liberal economic policies was taken by a government that had generally been perceived to be Marxist and significantly interested in a system of controls. The Provisional National Defence Council (PNDC) was a military regime that was not answerable to any other political structures in the country. It had managed to develop a coalition of young radical ideologues that appeared more interested in political outcomes to development issues than in the economic outcomes. In that system, the issues of distribution were more important than production and growth. They believed that the poor economic situation was a simple outcome of corruption that was related to incompetence, and that once the issues of equity were resolved through the institution of sanctions for wrong-doing the situation could be resolved. In the interim, aid from sympathetic governments would ensure that the institutions to fight corruption would be erected and made functional, while taking care of the immediate material needs of Ghanaians.

While there is no doubt about the fact that the economic situation made it essential for solutions to be found,[10] it is now generally acknowledged that the decision to embrace liberal economic reforms came at that material time because the leader of the military regime came to appreciate the fact that no aid was coming. It is therefore fair to say that liberal reform was precipitated by the urgent need for assistance from donors.

Did the decision to embrace liberal reforms lead to Ghana developing a reform programme that was intended to address the economic problems of the time? A number of Ghana observers have raised questions about the ownership of the reform programme. Aryeetey and Cox (1995) in a study of aid effectiveness in Ghana looked at this issue extensively. The institutional structure for undertaking the negotiations with the Bretton Woods Institutions was a rather ambiguous one. It was made up of a carefully-crafted Economic Management Team that operated ostensibly from the Ministry of Finance without necessarily using the structure of the ministry.[11] Aryeetey and Cox (1995) reported after interviews with key actors in the preparation of the reform programme that those officials believed that "the government took full responsibility for the preparation of the Economic Recovery Programme and only received the endorsement of the World Bank and IMF when a finished document was already in place, in spite of the usual consultations along the process". A member of the Government's Economic Management Team and one of the leading negotiators with the IMF and the Bank is reported to have stated that "to those who claim that adjustment was imposed on us, we can show them the home-grown document that we took to the World Bank". On the issue of the capacity to produce the reform programme, it was argued that there was no reason why Ghanaians should not be capable of producing the necessary documentation for negotiations since "the chief Ghanaian negotiators were trained in the same universities as their colleagues from the Bretton Woods Institutions". The government negotiator found nothing mysterious about a local "capacity to develop rational economic responses" to changes in the economic situation. Of course, that begs the question 'why was that not done earlier?'. The position about the local capacity to develop a rational economic response contrasts with the view of John Toye (1991) that suggests a dearth of local technical capacity at the time. Both the World Bank and the IMF take the position that initial preparation for reform was undertaken by Ghanaians with relatively little support from them.

It is important to underscore the fact that the negotiations would never have taken off but for the support of Rawlings, relying on his charisma. Knowing very well the full extent of his popularity among the people, he had literally used the authority this charisma gave him to bring together people from diverse backgrounds over whom he wielded enormous control in the absence of functioning formal institutions. Indeed, despite the existence of the formal decision-making body (PNDC), most decision-making on key policy matters were known to have been the prerogative of Rawlings after consulting with selected advisers privately. His ability to keep the different interest groups in his government apart, based on a

[10] Leith and Lofchie (1993) have a list of what they called seismic economic shocks that provided "a tripwire for policy change".
[11] The civil service machinery was made extremely weak by the conflicts in society that had seen a weakening of formal structures to be replaced by ambiguously structured 'revolutionary organs' (Jeffries 1991).

combination of stealth and cunning made it impossible for any constituency that opposed him to be sustained. He used the military apparatus to intimidate any would-be opponents, even on policy matters.

The reform negotiators have suggested that were guided by the principle that it was vital to thrash out policies with the BWI rather than turn to alternative donor agencies (Aryeetey and Cox 1995). A majority of the members of the Economic Management Team did not see the rationale in going to bilateral donors, as several of them did not have desk officers that could address the issues involved satisfactorily. The BWI on the other hand did, which made it necessary for bilateral donors to rely on Washington for assessments and guidance on how to respond to the Ghanaian programme.

While Bank officials suggest today that the government ‘owned’ the overall reform programme, there was no indication from them at the beginning of reforms that they regarded such ‘ownership’ as being crucial to programme sustainability. Indeed it is now considered legitimate to disaggregate the degrees of ownership associated with programme components. The Bank’s assessment of ‘ownership’ in Ghanaian reforms has been presented in Johnson and Wasty (1990) where ‘ownership’ was assessed to be much higher in the preparation of the Trade and Import Sector Loans than for the Export Rehabilitation Loan. In the former case, the expression of political will by the top leadership of the nation was described as high, but very low for the latter. An assessment of the “aggregate degree of ownership” was also high for the trade and import sector loans and very low for the export sector loan. It would appear that the Bank's assessments of 'ownership' lay particular emphasis on the commitment of the leadership and less on the locus of initiative. Legitimacy was of a lesser concern so long as the government had a way of achieving results. This probably explains why the BWI hardly encouraged the government to consult other institutions, including the universities, the private sector and trade unions.

The Bank has indeed suggested that the reform programme “has been successful” largely because of the determination with which the Government of Ghana stuck to agreed programmes. They counter any suggestions of “Bank ownership” of the reform process in Ghana with the point that there has been much intellectual laziness, both within the government and outside, which is evidenced in the frequent use of the expression ‘IMF intervention’. While bank officials that Aryeetey and Cox (1995) interviewed conceded that there had been many complaints against SAP in Ghana, these had not been regarded as constructive because of a failure to suggest credible alternative approaches. Bank officials maintained the Government of Ghana was very much behind the reform process most of the time.

There has been some criticism within the country, particularly from the political left that the claim of ownership was irrelevant since the Ghana Government simply took the initiative to prepare a document that would have been prepared for it any way by the Bank and the Fund. The issue of legitimacy of the regime has been addressed by Ninsin (1991), suggesting that the reform programme did not embrace the interests of a larger cross-section of the people. While legitimacy might be disputed, the sense that the Ghana Government was “not being pushed around” by donors prevailed. Whichever way one looks at the question of ‘ownership’, it is obvious that Ghana gained a lot of respect internationally by being able to negotiate seemingly difficult points that other African governments had previously had to “acquiesce” on. This is used by Ghanaian officials as proof of ownership. For example, in negotiating the issue of devaluation, the ERP document outlined the necessity of proceeding in stages-- initially with a 3-tier exchange rate arrangement but obtained agreement with the Fund for two, at a time when the Fund would not accept a multiple exchange rate system for many countries. Though the Fund opposed the initial proposal of a 3-tier multiple exchange rate system which would be unified after a period, (arguing it was administratively too complex), they settled on a compromise of a 2-tier system. In the event the Government of Ghana ended this system and unified it ahead of schedule. Such successes and commitments at an early stage proved an effective means of winning further Bank and Fund support. Aryeetey and Cox (1995) reported that officials at the Finance Ministry believed that the government was able to win over the Bank and the Fund because they presented programmes that showed a willingness to impose discipline on themselves.

It is important to underscore the fact that Ghana became a new democracy in 1992, almost a decade after reforms began. This created new institutions, including a parliament and a strengthened civil service as well as the development of a new civil society. The government of the National Democratic Congress (NDC) led again by Jerry Rawlings, never stopped showing its disdain for the parliamentary processes that were supposed to oversee public expenditure programmes and the raising of revenue from both domestic and foreign sources. Aryeetey and Cox (1992) reported that some donors believed that the process of reform had been slowed down as a result of the introduction of democracy.

4.4.2 The Role of Pressure Groups

Despite the *ex-post* rationalisation of policy making earlier, the stance of the Government of Ghana on the reform at the time was far less clear cut. Even though Rawlings provided personal support, there was considerable difficulty with the political left, particularly since shares of social expenditures were expected to fall subsequently, hence suggesting that adjustment burdens would fall disproportionately on the poor. But the reformists responded that their early anticipation of these problems led to the Programme of Actions to Mitigate the Costs of Adjustment (PAMSCAD) (Aryeetey and Cox 1995). Most members of the government perceived “the left” to be “die-hards” who were not prepared to discuss compromise solutions. Aryeetey and Cox (1995) reported that the situation was saved only by Rawlings’ conviction that the left-wing members of his government had no prescriptions with any credibility. Furthermore, appeals to socialist countries during the drought of 1983 reaped little reward, thus “revealing the lack of alternative to embracing the capitalist system”. Rawlings became willing to invest his political capital into the reform process and, for example, fully endorsed the need for higher productivity as the only way to sustain pay increases for workers, a posture that surprised his supporters.

Following Batesian analysis, further resentment against the reform programme came largely from urban populations that bore the costs of initially reduced real incomes, increased tax collection, end to subsidies, etc. It is interesting, however, that in the period

1983-87 when opposition to reforms was strongest, such opposition was hardly ever expressed in radical action, except for isolated cases of minor demonstrations. While it is true that a majority of the people were unclear about the likely outcomes of reforms and therefore did not commit themselves to it, it was equally unclear what the other options were. A good description of people's attitudes to ERP would be “passive” at best. It was interesting that the Trades Union Congress showed very little desire to fight the reform as it had itself been politicised earlier in helping to establish the credentials of Rawlings as a supporter of workers’ rights (Jeffries 1991).

In Aryeetey and Cox (1995), government negotiators of the reform package indicated that they had some difficulty satisfying both donor negotiators as well as some local interest groups. They indicated that in dealing with the people of Ghana, the government had to resort to such unusual tactics as referring to devaluation in terms of “bonuses and surcharges”, where those who used the foreign exchange paid a surcharge for it. This was regarded as the only way to “avoid political suicide” with devaluation. It is ironical that while the government was anxious to be seen as the owner of the reform programme it also sometimes employed tactics that did not display the confidence of an owner. This was obvious when it used aid conditionalities to get people to respond to reform measures. The Ghana Government indeed often used conditionalities as a tool for gaining leverage in negotiations with local groups, including workers. It was easy to blame the World Bank for any position that Government wished to take on a number of issues, knowing very well the Bank was not going to repudiate the position publicly. An example was the educational sector reform programme, where the Ministry of Education carried out a massive re-structuring of the basic educational system at such great speed, (and little debate), using the timing of World Bank disbursements and conditionalities as the major reason why extensive debate could not be tolerated.

4.3.3 Political Instability/Policy Instability

The early reform years were not by any means easy for the ruling group. Aside from innate opposition from ideologues there were a number of attempted coups to replace Rawlings in October and November 1982, and June 1983. What the coup attempts did were to force Rawlings to purge the institutional structures for governing, making them weaker against his authority. As a result, those structures that had been intended to ensure accountability in the society became partially crippled. These included the People’s Defence Committees and Workers’ Defence Committees that had been created earlier to defend the ‘revolution’.

While it is difficult to describe the coup attempts as having destabilised the government in any way, there is no doubt that they created a sense of urgency to find solutions to the myriad of economic problems. Indeed the response was to crush all possible sources of instability.

But the fact that they came at all helped to create a sense of vulnerability around the reform measures and led to questions about sustainability. In Aryeetey (1994), it is pointed out that while there were no significant policy reversals, there was always a question mark about how far the government could hold out against opposition. There was also the question of whether the policies would change if there should be a change in government. Many have seen this as having had an impact on the response to reform measures as their sustainability over time was always in question.

Under the current democratic dispensation there is a strong and growing perception that the political instability associated with coups is a thing of the past, thus giving fresh hope that radical changes to the liberal policies are unlikely in the near future.

4.3.4 Corruption

Has corruption been a big issue in Ghana since the reforms began? For a while, in the 1980s, there was a general consensus among Ghanaians that corruption among policy makers and senior government officials had gone down considerably. This was based on a perceived good example from the leadership in government. There were hardly any allegations in public about government officials demanding and taking bribes on government contracts. This was partly to do with the harsh methods that the PNDC instituted, described by Gyimah-Boadi and Jeffries (2000) as “an anti-corruption drive which included vetting of lifestyles and investigation into sources of income and wealth- through newly created extra judicial bodies such the Public Tribunals, Citizens Vetting Committee and the National Investigations Committee” (pp.41).

After the late 1980s however, all that changed. Allegations at all levels of public life began to rise. A survey of 1500 households in August 2000 yielded the result that 75% saw corruption as a major problem in Ghana. And 82% believed that corruption was more prevalent than three years earlier (CDD 2000). In 1993, rampant allegations of corruption against government ministers forced the government to request the Commission on Human Rights and Administrative Justice to investigate these reports. While some of those mentioned were cited by the commission for participating in corrupt practices, the commission could not make similar findings against the rest (CDD 2000). What was interesting about the case was the fact that government chose to do nothing in the case of those cited for corruption. To show how widespread in Ghana has become since the 1980s, a study on perceptions of corruption was carried out by the Centre for Democracy and Development (CDD 2000). The study showed that many Ghanaians considered corruption to be very widespread, commonest in the Police Service and among Customs officials. Many regarded politicians also to be relatively corrupt. They suggested that corruption permeated the entire society.

It is difficult to link directly the poor performance of the economy since 1992 to corruption. While this may be so, there is evidence of politically corrupt behaviour leading to what may be described as political business cycles, surfacing with democratisation in Ghana. This is quite similar to what Block (1999) identifies for many emerging African democracies. The corrupt behaviour has seen the periodic attempts ‘to buy votes’ from the population with ‘development projects’ that lead to dramatic expansions of public expenditures and the fiscal deficit, one whose financing has always led to significant inflation and rapid depreciation of the Cedi. This is one general sense in which 'corrupt' policies hurt the economy.

At another level, the corruption of civil servants, customs officials and policemen affect enormously the transactions costs of doing business and push up prices of goods and services. An often-used illustration in the popular press of the rise in transaction costs resulting from the actions of policemen is in relation to the market for yams, a Ghanaian staple. At the over-thirty police check points between northern and southern, Ghana market women moving a truck load of yams for sale in the south from the north are reported to lose an average of two tubers valued at about a dollar at each checkpoint. In the CDD survey, about 66% of households earning more than a million Cedis monthly indicated that about 10% of their incomes were used to make unofficial payments to public officials.

5. CONCLUSIONS

There is no doubt about the fact that policy improvements in Ghana in the 1980s helped to generate substantial growth. The growth came about as a result of the fact that the policy changes led to the availability of resources to the public sector which was invested in capital projects. But indeed, whenever there has been a major investment in such capital projects, there has been some appreciable growth.

What has not accompanied the growth from capital injection has been a steady improvement in total factor productivity. There are a number attributes and conditions of factor and product markets that impinge on the achievement of steady increases in TFP. For example the labour market remains constrained by the weak human capacity, despite initial good education. But more importantly, technological investments have not taken place adequately, and this is large because the private sector has not been the main source of investment, while public investment is directed at the provision of basic infrastructure. The absence of technological investments can be linked to the weak credit market. It may to some extent be associated with a land market that no one wants to reform, despite ambiguities.

In this regard, policies matter inasmuch as they lead to resource availability. This would probably explain the significance of aid to Ghana's growth. But so long as such resource flows are unreliable, generating greater returns from investments through TFP will have to be the way to look. That calls for a re-focusing of policies and a strengthening of institutions.

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