The Economy of Ghana: Has Neo-Liberalism been the Solution or the Problem?

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1. Introduction and Overview

This paper aims to summarise the principal objectives and conclusions of a book which is scheduled to be published towards the end of 2017 (Huq and Tribe, forthcoming 2017). The book makes a further contribution to the study of the development of the economy of Ghana, following up on an earlier volume –*The Economy of Ghana: The First 25 Years since Independence* (Huq, 1989) which examined the economic progress of the country since independence in 1957 up to the early 1980s. The new volume takes the story forward to the present, thus enabling us to cover a period of over five decades.

An aspect of the Ghana story which is of particular interest is the fact that the country has, since its independence in 1957, experienced quite different forms of economic organisation and control. Initially, the country sought to achieve economic progress by means of a *dirigiste* system of economic management with government closely involved in planning and attempting to guide the course of development. This approach (as described in some detail in Huq, 1989) proved mostly unsuccessful, with the economy being brought to its knees by the late 1970s and the early 1980s. In the mid-1980s a complete turnaround of economic strategy occurred – a neoliberal policy characterised by reliance on market forces rather than state controls was instituted. With help from the World Bank and the IMF, a Structural Adjustment Programme was begun – referred to as the Economic Recovery Programme. Set within a four-year time span, the first year (1983) was devoted to stabilisation and consolidation, thus preparing for the launch of a three-year medium term plan (1984-86). This was followed by the second phase (Phase II: 1987-89) when, among other things, there were place radical foreign exchange reforms based on the further devaluation of the Cedi. Since 1989, what may be called a fully-fledged liberalisation strategy involving active collaboration with the World Bank and the IMF has been adopted.

Ghana therefore provides an example of a developing country which started its economic life greatly influenced by a planning strategy with strong state controls and, subsequently, made a complete turnaround, adopting a neoliberal strategy which, in some ways, is even more 'liberal' than that followed by some of its mentors in the Western world. Here we have a good opportunity to review the strengths and weaknesses of the two diametrically opposite economic strategies. It is true that notable successes have been achieved during the period of liberalisation, but one cannot deny that serious problems exist. The question of whether Ghana has yet found the optimal balance between reliance on market forces and on state control is begging. The rich literature which has developed in this regard since the early 1940s is of great help in contributing to our understanding of such pertinent issues. (see, e.g. Rosenstein-Rodan, 1943; Prebisch 1950; Singer, 1950, Nurkse, 1953; Lewis, 1955; Amsden, 1989; Wade, 1990; and Brown and Jackson, 1990).[1]

Not surprisingly, critics have raised their voices against the neoliberal strategy now being pursued in Ghana. A particular criticism has been that the version of neoliberalism adopted by the Ghana Government has not been accompanied by an emphasis on the development of local private enterprise. Indeed, Opoku (2010:1-2) suggests that there has been an anti-private capital ethos within the bureaucracy, arguing that "Ghana's patronage-based politics and the accumulating strategies of rulers meant that political – not economic considerations dominated policy making and government attitudes, leaving little room for autonomous capitalists." Ayelazuno (2014: 47) is even more critical terming the application of the neoliberal ideological push generating a "paradox of growth without development". Another is that there has been insufficient attention to the income distribution and poverty dimensions of development.

2. Achievements and Concerns

The adoption of the liberalisation strategy greatly helped the economy – not only by bringing it out of the decline which reached a critical level in the early 1980s but also by enabling it to maintain consistently positive growth rates. For the 25-year period (1990-2015), an average annual growth rate of 5.6 per cent has been achieved and even a highly respectable figure of 7.63 per cent during the 2010-2015 period.

While per capita income had declined during the 1970-1985 period it recovered and has remained positive since the mid-1980s, with recent years showing over 2.3 per cent average annual growth rates (3.81 per cent during 2005-2010 and 5.10 during 2010-2015 – see Table 1 below).

Table 1 Growth of GDP and GDP per capita, 1960–2015
(Constant2006 prices: percentages)

	GDP growth rate Annual Average	GDP per capita growth rate Annual Average
1960 - 1965	3.10	0.10
1965 - 1970	2.87	0.66
1970 - 1975	-0.25	-2.89
1975 - 1980	0.95	-0.94
1980 - 1985	-0.43	-3.63
1985 - 1990	4.80	1.91
1990 - 1995	4.28	1.48
1995 - 2000	4.32	1.92
2000 - 2005	5.04	2.39
2005 - 2010	6.51	3.81
2010 - 2015	7.64	5.09

Source: Computed from Appendix Tables in Huq and Tribe, forthcoming, 2017

There have been positive developments in many sectors of the economy and these are reviewed in the chapters of Huq and Tribe (forthcoming 2017). Both exports and imports (which almost collapsed in the early 1980s) now constitute larger shares of GDP, respectively 38.97 per cent and 50.78 per cent in 2015. In exports, the contribution of gold mining has been particularly remarkable for much of the period, while more recently crude oil has been a major feature of trade development. Large volumes of Foreign Direct Investment (FDI) have been attracted – the FDI flow had declined from 2.52 per cent of GDP in 1980 to 0.12 per cent in 1985, but reached 8.43 per cent in 2015. FDI has, inter alia, been associated with the development of god mining and of crude oil production and export. Development of the banking and finance sector has been phenomenal, particularly when compared with the situation 20 years ago.

Table 2 Selected Macroeconomic Indicators, 1961-2015

Period	International Trade (% of GDP)			FDI (% of GDP)	Annual Inflation (%)	Government Revenue and Expenditure (% of GDP)		Fiscal Balance (% of GDP)
	Exports	Imports	Trade Balance			Government Revenue	Government Expenditure	
1961-65	21.63	28.57	-6.94	-	-	20.10	29.59	-9.47
1966-70	18.73	20.68	-1.95	-	4.61	15.93	20.58	-4.65
1971-75	19.03	18.44	0.59	-	17.05	14.91	18.43	-3.52
1976-80	10.86	11.52	-0.66	0.10	70.03	8.83	15.86	-7.03
1981-85	6.47	7.73	-1.26	0.20	62.33	4.54	7.88	-3.34
1986-90	17.61	24.11	-6.51	0.16	31.65	14.55	9.49	5.06
1991-95	20.84	32.08	-11.24	1.74	27.48	18.93	12.81	6.12
1996-00	35.85	51.34	-15.48	2.33	25.33	19.58	14.08	5.50
2001-05	40.86	59.68	-18.82	1.47	20.43	25.95	29.90	-3.95
2006-10	26.70	42.85	-16.15	7.04	13.63	15.70	20.24	-4.54
2011-15	39.01	50.67	-11.65	8.01	12.43	21.77	26.72	-4.95

Sources: Computed from Appendix Tables in Huq and Tribe, forthcoming, 2017

However, while appreciating that highly positive developments have taken place, we also need to be aware of various concerns, a number of which are listed below.

One particular problem area relates to the severe fiscal deficits which Ghana has experienced. The negative fiscal balance which prevailed during the 1970s and the first half of the 1980s (a high negative average annual rate of -7.03 per cent of GDP during 1976-80) was gradually brought down, and the balance became positive for a number of years but, since 2000 it has turned negative (a negative average annual rate of -3.95 per cent of GDP during 2001-05, -4.54 per cent during 2006-10 and -4.95 per cent during 2011-15) (see Table 2).

Heavy foreign debts have been incurred. While Highly Indebted Poor Country (HIPC) status was granted to Ghana in 2001 and considerable debt relief was provided, there have been recent considerable increases in international debt.[2]

The level of gross savings is another area of concern. Gross savings were 19.99 per cent of GDP in 2012 but fell to 15.69 per cent in 2013, increased in 2014 but fell again to 17.57 per cent in 2015. Over the last 10 years, 2005-2015, gross savings as a percentage of GDP never reached 20 per cent (see Table 3). There appears to be a belief on the part of policy makers that high interest rates (providing a positive interest rate to attract savers after allowing for inflation) will help to raise the level of savings. While it is true that those advocating the neoliberal agenda do not specify this approach to interest rates explicitly their reluctance to argue for other government action in support of deliberate efforts to raise the savings rate needs to be questioned, especially given the serious savings deficiency relative to what is required to maintain the desired high GDP growth rate. Table 7 in Section 5 later in this paper sets out comparative data for the rate of savings in a range of developing countries in Africa (including Ghana) and Asia.

The continued heavy dependence on primary produce is also another area of concern. Together with the increase in the GDP share of the services sector (as high as 50.60 per cent of GDP in 2015), there has been a significant decline in the share of agriculture (21.66 per cent of GDP in 2015) but, including mining, the share of primary sector was still around 30 per cent in 2015. Such dependence becomes particularly notable for exports which are dominated by primary produce (over 60 per cent in

2015, of which minerals accounted for 32.1 per cent, and cocoa 19.5 per cent). Such a heavy dependence on minerals, which are an exhaustible resource, is an obvious cause for concern.

Related to the above, the failure of the economy to diversify, especially to develop the manufacturing sector is another matter of serious concern. The normal expectation would be that a developing country such as Ghana would have a high rate of growth in the manufacturing sector. In the case of Ghana, not only has manufacturing as a percentage of GDP remained low (less than 10 per cent of GDP since 2005) but has declined in recent years, falling from just over 10 per cent of GDP in 1995 to 8.23 per cent in 2010, and further to 6.85 per cent in 2015. Indeed, the GDP share of manufacturing in Ghana in 2015 is less than half of what it is in the Ivory Coast and Kenya (World Bank, 2016).

Currently, an important criticism is that the local enterprise sector is failing to play an active part in economic development. This is clearly demonstrated by the case of small-scale mining development which, though reserved for Ghanaians, is being actively promoted by Chinese small-scale entrepreneurs (Huq and Tribe, forthcoming 2017: Chapter 8). Indeed, there is a concern that the growth of local private enterprise has not been taken seriously. As observed by Opoku (2010), there has existed an anti-private capital, bureaucratic ethos and this is particularly disturbing at a time when the public position of the government is that the private sector is viewed as an 'engine of growth'. In a capitalist mode of development, let us not forget that the main actors in the game are the entrepreneurs who actually bring about investment and growth. It is true that in a globalised world, the principal entrepreneurs are not only local, especially given the emphasis on free movement of capital. Entrepreneurs from overseas can certainly play a role, But their contribution will not be enough by itself. Local entrepreneurs are also needed in substantial numbers with active involvement in investment and growth.

While Ghana has witnessed a rapid decline of poverty (from a high level of 51.7 per cent of the population in 1991/92 to 24.2 per cent in 2012/13 according to international measures), at the regional level there still exists large scale poverty, mainly in the three northern provinces, Upper West (70.7 per cent of the population of the Region in 2012/13), Northern Region (50.5 per cent) and Upper East (44.4

per cent) (reference needed – see Chapter 19). Equally, the level of inequality is found not only high but also increasing, a trend in conflict with the country's objective of achieving inclusive progress.

3. Developments in the 1980s and to the present day

In the early 1980s, the economic situation had reached a critical state. Because of a fall in government development expenditure there was "a marked deterioration in critical infrastructure, including roads, railways, electricity and telecommunications. The decline in infrastructure services, particularly transport, reduced the ability of the country to move export products to ports for shipment, which further reduced export earnings, taxes, etc. The distortion induced by the overvalued exchange rate, and the shortage of imported foodstuffs, induced farmers to move out of export to produce for the domestic market." (World Bank, 1984a: xv). This problem with the infrastructure sector has a serious dysfunctional impact of the whole economy.

In December 1982, the PNDC (Provisional National Defence Council) Government proposed a recovery programme, formally put forward in a two-volume document, released in August 1984 (GoG, 1983a), aimed "at reversing a protracted period of serious economic decline characterized by lax financial management, inflation rates well over 100 per cent, and extensive government involvement in the economy" (IMF, 1998). A key feature of the programme was that it was going to be supervised by the IMF and the World Bank "to rectify the economic imbalances and distortions that contributed to the stagnation and decline of the economy in the 1970s and the early 1980s" (Ackah et al., 2012: 52).

The first phase, stabilisation, of the Economic Recovery Programme (ERP I) was implemented during 1983-86. Set within a four-year time span, the first year (1983) was devoted to stabilisation and consolidation, preparing for the launch of a three-year medium term plan (1984-86). The three important policy measures outlined in the ERP I were: First, the establishment of a realistic exchange rate and periodic adjustment of the exchange rate relative to Ghana's major trading partners. Second, the formulation of fiscal policy so as to eliminate the high deficit in the government budgets, thus ensuring financial discipline. Third, tackling production bottlenecks with a new commodity pricing policy based on production costs along with appropriate incentive margins.

During the ERP II which covered the period from 1987 to 1989, the reforms included the divesture of many government assets through privatisation together with radical foreign exchange reforms including devaluing the Cedi further. It is true that the progress of privatisation was sluggish but in the area of foreign exchange rate reforms, the foreign exchange bureaus were established in 1988 and the black market in hard currency was nearly eliminated (see, e.g., Berry, 1994, and Aryeetey et al., 2000). Indeed, there took place a major shift "towards more liberal, market-oriented and outward-oriented policies" (Laryea and Akuoni, 2012:13).

The overriding purpose of the ERP, as observed by Berry (1994: 144) "was to reduce Ghana's debts and to improve its trading position in the global economy. The stated objectives of the program focused on restoring economic productivity at minimum cost to the government and included the following policies: lowering inflation through stringent fiscal, monetary, and trade policies; increasing the flow of foreign exchange into Ghana and directing it to priority sectors; restructuring the country's economic institutions; restoring production incentives; rehabilitating infrastructure to enhance conditions for the production and export of goods; and, finally, increasing the availability of essential consumer goods. In short, the government hoped to create an economic climate conducive to the generation of capital."

According to the IMF (1998: 1): "The ERP, which adopted a market-oriented approach, made considerable progress in reducing macroeconomic imbalances and liberalizing the external sector. Inflation was lowered from 142 per cent in 1983 to 10 per cent by the end of 1991. The highly distorted exchange and trade system was liberalized. The balance of payments registered sizable overall surpluses throughout the period. Real GDP growth averaged about 5 per cent a year, resulting in appreciable increases in real per capita incomes".

The year 1989 can truly be considered as the year of Ghana's journey towards a liberalised trade regime. As observed by Ackah et al. (2012: 53): "Ghana was already open by the early 1990s, and has become continuously more open since then. The stabilisation and adjustment policies were generally maintained in the 1990s. The state continued to undertake extensive economic reforms and trade policies aimed at transforming the economy from a largely state-controlled one to a market economy in the 1990s. In the 1990s, extensive reforms aimed at reversing previous inward-looking policies were pursued. This included major structural reforms in both the real and financial sectors of the economy, and trade and investment liberalization has been an integral part of them. .... The growing openness of the economy, has resulted in both imports and exports increasing as a proportion of GDP, but with the latter consistently exceeding the former, and to an increasing extent over time."

Understandably, tariff reforms have remained the main focus of the policy package. According to Ackah et al. (2012: 53):

> "By the end of the 1990s, the tariff rate had been notably cut, the tariff structure had been considerably simplified and few non-tariff barriers were applied. ..... By January 2000, Ghana's tariff structure showed an average rate of 13 per cent having reduced from a high rate of 17 per cent in 1992. However, the special import tax rate of 20 per cent which was imposed on some 7 per cent of tariff lines raised the tariff on many consumer goods to 40 per cent - well above the previous rate of 25 per cent. This policy action defeated the aim of the trade policy reform, which had been undertaken since the structural adjustment programme, to rationalize the incentive system and improve the competitiveness of the domestic manufacturing sector. Thus, by the end of 2000, Ghana had a relatively simple tariff structure, comprising four bands; 0 per cent, 5 per cent, 10 per cent and 20 per cent. The average applied tariff was 14.7 per cent, having increased from 13 per cent in January 2000, with sectoral averages of 20.2 per cent and 13.8 per cent on agriculture and manufacturing respectively (WTO Trade Policy Review, 2001). In an effort to bring Ghana's tariff structure into harmony with ECOWAS and WTO provisions, the 20 per cent special import tax imposed on selected "non-essential" imports in 2000 was eliminated in 2002."

By the mid-1990s, there emerged a relatively simple tariff structure, with three major rate categories (Laryea and Akuoni, 2012:14). These categories, or 'bands' are broadly as described by Ackah et al. (2012) in the above quotation, but additional features outlined by Laryea and Akuoni include a number of programmes under which imports could be exempted from import duties and the fact that manufacturers could apply for permission to import raw materials and intermediate inputs at concessionary rates of duty. Table 3 gives an idea of Ghana’s progress towards trade liberalisation.

Table 3 Progress Towards Trade Liberalisation: Various Phases, 1983 to 2015

Periods	Liberalisation Moves
1983–1986	Attempted liberalisation or transition to import liberalisation
1986-1989	Period of import liberalisation
1989-1994	Liberalised trade regime
1994-present	In 1995, zero-rated and exempted items comprised about 60 per cent of total imports. Exemptions to attract foreign investment, especially in the mining sector and in the context of regional integration, contribute the bulk.

Source: Laryea and Akuoni (2012:189-90); Bajracharya and Flatters (1999); Aryeetey, et al. (2000); and Aryeetey and Kanbur (2017).

It is now well documented that rather than helping in the improvement of resource allocation, the pre-1983 planning efforts with price controls, which became particularly severe during the latter part of the period, caused severe economic problems in Ghana (see, for example, Huq 1989). In the late 1970s and the early 1980s, the economy was about to collapse; an average Ghanaian was much worse off than he or she was a quarter century before at the time of the country's independence, with GDP per capita in 1983 less than three-quarters of the 1957 level.

With the change of the policy regime instituted in 1983, there started the gradual removal of the old control regime and the institution of a radical policy regime conforming to the so-called 'neoliberal agenda'; this approach has attracted both praise and criticism (see e.g., Ansah-Yeboah, 2014; and Ayelazuno, 2014).

5. Growth and Structure of the Economy

In 1960 Ghana was far ahead of many other developing countries with a per capita income (at the price levels which then applied) of £70, faring better than, for example. Nigeria (£29), Egypt (£56) and India (£25) (Huq, 1989: 46). GDP continued to grow through the 1960s with the exception of 1966, when it fell by 4.3 percent, but the average annual real growth rate of 2.8 percent was lower than the average rate for the period before 1960. Significant fluctuations in GDP growth occurred during the 1970s with four years having negative growth rates. Between 1970 and 1980, GDP grew only 3.7 percent (in 1970 prices), the average annual rate of growth being only 0.4 percent. In 1981, 1982 and 1983, GDP fell by 4.2, 6.9 and 4.6 per cent respectively (Huq, 1989: 46).

Ironically, the average per capita GDP growth rate was higher in the pre-independence period than in the late-1970s and the early 1980s. It is true that the average annual GDP growth of 2.8 percent during the 1960s was not negligible, but the annual population growth of 2.4 per cent during this period meant an annual increase of only 0.4 percent in real GDP per capita. With the low growth rate of GDP during the 1970s and the average population growth of 2.6 per cent per annum, there was a fall in real GDP per capita of 2.2 percent per annum. Significant falls in growth rates for both GDP and GDP per capita were observed during 1980-83 (Huq, 1989: 47).

Using an index of GDP based on 1970=100 the level of GDP in 1957 was 63.6, rising to 75.8 in 1960 and to 89.0 in 1965. The GDP index stood at 112.2 in 1974, but fell to 98.2 in 1975. The GDP index then rose to 103.7 in 1980, but fell to less than 90 in 1983, indicating a rise in GDP by about 25 per cent between 1957 and 1983, but a fall of about 8 per cent between 1975 and 1983.

Table 4 GDP and GDP per capita, 1960–2015 (Selected Years)

Year	GDP (GH₵ millions)		GDP per capita (GH₵)	
	Current Prices	2006 Prices	Current Prices	2006 Prices
1960	0.087	5,248.403	0.013	788.96
1965	0.147	6,113.392	0.019	792.86
1970	0.226	7,043.168	0.026	819.26
1975	0.528	6,956.524	0.054	707.58
1980	4.285	7,292.301	0.397	675.09
1985	34.31	7,137.054	2.698	561.26
1990	192.08	9,024.371	13.131	616.91
1995	775.17	11,129.385	46.248	664.01
2000	2,715.25	13,749.698	144.236	730.40
2005	9,726.08	17,579.981	454.713	821.90
2010	46,042.10	24,100.890	1,893.355	991.08
2014	113,343.40	33,521.874	4,231.347	1,251.44
2015	139,935.863	34,823.429	5,105.305	1,270.47

Source: Computed from Appendix Tables in Huq and Tribe, forthcoming, 2017

A new series of national income data was released in 2010 (GSS, 2010) using 2006 as the base year for the estimation of GDP. Table 5 combines earlier GDP series with the re-estimated national income series to provide a long series of GDP data running from 1960 to 2015. The data in Table 1 earlier in this paper summarises the changes in GDP and GDP per capita from 1960-2015 showing that GDP per capita remained depressed for a long period from the mid-1970s to the mid-1990s. After a prolonged period of declining GDP from the early 1970s until the mid-1980s, GDP grew at a consistently positive rate after 1985, in particular showing marked higher growth in recent years.

The causes of Ghana's economic decline in the 1970s and the early 1980s are now well documented (see, for example, Huq, 1989; Killick, 2000; and Gyimah-Boadi and Jeffries, 2000). It is perhaps sufficient to mention here that Ghana's economic decline in this period was largely self-inflicted. For example, the adoption of policy measures controlling prices of goods and the foreign exchange rate of the cedi gave rise to a seriously distorted price structure which, accompanied by administrative problems, resulted in a highly unsatisfactory economic performance.

Distribution of GDP by Uses

Table 5 presents data on the uses of GDP at constant 2006 prices over the period 1960 to 2015. Household consumption, which was slightly less than 73 percent of GDP in 1960, rose to just over77 per cent in 1965, but then declined to around 73 to 74 percent in 1970 and 1975. For 1980 and 1985, household consumption was estimated as almost 84 per cent of GDP and it remained at around this level through to 2005 (apart from a lower level of just over 76 percent in 1995). Since 2005 there has been a fall in the level of household consumption so that the figures for 2010 and 2015 were around 78 and 62 per cent respectively. This suggests some kind of downward step-change in the level of personal consumption in the early years of the 21st century.

Government consumption as a percentage of GDP was estimated at marginally over 10 per cent of GDP in 1960, increasing to slightly less than 14.5 per cent in 1965, but then for a period in the 1980s was only around 9.5 per cent of GDP. This low level of government consumption appears to be associated with the years during which economic reforms were beginning to take effect, with the parallel markets which had developed during the years of considerable economic distortions gradually becoming unified. These distortions had been characterised by relatively low tax revenues and low salaries in real terms meaning that both government revenues and expenditures were within the 'low official prices' part of the parallel markets while other parts of the economy (not related to the government sector) were within the 'high black market prices' parts of the economy. The operation of the parallel markets is described in an appendix on the '*Kalabule*' economy in Huq (1989: 309-314). Government consumption recovered somewhat in the 1990s, accounting for just over 12 per cent of GDP in 1995, but since then there have been considerable fluctuations in its level, varying from a high of over 16.5 per cent in 2015 to a low of just over 10 per cent in 2000.

Gross fixed capital formation (GFCF) accounted for over 22 per cent of GDP in 1960, a level which would be regarded as being close to 'normal' for many economies. But GFCF started to 'slide' after 1960, progressively falling to only just over 6 per cent of GDP in 1980. This very low level of GFCF would, in principle, usually be regarded as indicating that the economy was 'barely keeping the capital stock intact', although interpretation of GFCF data would be rather more complex than this. From the time of the adoption of the Economic Recovery Programme in April 1983 there was a steady increase in the gross investment share of GDP, so that by 1995 it reached over 21 per cent, and has been at a level of 25 to 30 per cent over the period 2005 to 2015. This is a remarkable turnaround, and some parts of the higher levels of capital formation have been funded through private foreign investment, inflows of official development assistance and international borrowing.

Exports experienced a marked decline as a proportion of GDP uses, from an estimated 28 percent in 1960 to around 20 percent over the years 1965 to 1975. However, recorded exports only accounted for about 8.5 percent in 1980, and about 10.5 percent in 1985, mainly due to the impact of the distorted price regime on exports of cocoa beans (a considerable amount of Ghanaian production being smuggled to Côte d'Ivoire with the CFA franc proceeds being processed through the black market). Exports had recovered considerably by 1990 when they amounted to just below 17 percent of GDP, and for the following years there was very strong export performance. The level of imports relative to GDP traced a similar path to exports until around 1990, and since then they have been running at a very high level relative to GDP, reflecting the importing requirements of the economic recovery and 'reconstruction' of the economy. For 2010 and 2015 imports accounted for between 53 and 54 percent of the use of GDP.

Table 5 Percentage Distribution by Uses of GDP at 2006 prices, 1960–2015(selected years)
(Constant 2006 prices: percentages)

Uses	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005	2010	2015
Household Final Consumption expenditure	72.83	77.29	74.38	73.33	83.90	83.97	85.22	76.34	84.27	80.96	77.30	61.81
General Government Final Consumption Expenditure	10.01	14.46	12.84	13.02	11.16	9.40	9.31	12.07	10.17	15.31	13.77	16.60
Gross Fixed Capital Formation	22.32	18.14	12.00	11.62	6.10	9.53	14.39	21.13	23.10	29.00	25.29	30.32
Changes in Stocks	2.53	-0.20	2.13	1.12	-0.47	0.04	0.06	-1.11	0.90	0.00	1.27	2.10
Exports	28.19	17.12	21.34	19.36	8.47	10.65	16.88	24.50	48.80	36.45	36.19	42.42
Imports	35.44	26.74	22.71	18.44	9.15	13.59	25.85	32.93	67.25	61.72	53.12	53.83
GDP (GH₵ billions)	5.25	6.11	7.04	6.96	7.29	7.14	9.02	11.13	13.75	17.58	24.10	34.82

Note: For the period up to 2005 Household Final Consumption Expenditure was taken as a residual. The first Household Budget Survey (GLSS 1) was in 1992/3 and since then Household Budget Surveys have been organised every five years. The Ghana Statistical Service (GSS) re-based its GDP in 2006 and from that time Household Final Consumption Expenditure is no longer a residual but is based on the survey data, so because of this there are discrepancies between GDP and GDE due to the inability to estimate some of the components and because of lack of data. As the National Income data are re-worked backwards following the adoption of the new series starting from 2006 a lot of the discrepancies will be resolved. The components of GDP, as in this table, do not currently (2016) add to 100 per cent of GDP for these reasons. More recently the statistical procedures have been further amended (Source: Ghana Statistical Service personal communication).
Sources: Computed from Appendix Tables in Huq and Tribe, forthcoming, 2017

Table 6 Distribution of GDP by industrial origin at constant 2006 prices, 1965–2015 (Selected years, percentages)

Sector	1965	1970	1975	1980	1985	1990	1995	2000	2005	2010	2015
1. Agriculture	**40.77**	**46.52**	**34.21**	**38.32**	**37.04**	**32.03**	**29.36**	**29.06**	**29.09**	**26.77**	**21.66**
1.1. Crops	27.06[a]	28.08[a]	24.64	27.95	25.86	22.41	20.64	19.81	20.19	19.52	16.11
o.w. Cocoa	8.43	14.04	3.12	2.81	2.02	1.94	2.00	2.13	2.81	2.81	2.10
1.2. Livestock			2.38	2.92	2.96	2.49	2.36	2.41	2.37	2.18	1.95
1.3. Forestry and Logging	5.28[b]	4.40[b]	3.69	3.64	3.84	3.39	3.08	4.06	4.07	3.14	2.25
1.4. Fishing			3.50	3.80	4.38	3.74	3.27	2.78	2.46	1.94	1.35
2. Industry	**18.57**	**19.27**	**28.12**	**21.65**	**17.43**	**19.45**	**19.43**	**19.67**	**19.61**	**20.97**	**24.82**
2.1. Mining and quarrying	2.41	1.71	3.95	2.55	2.31	2.63	3.02	2.98	2.74	2.86	7.91
o/w. Crude Oil			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.27	5.96
2.2. Manufacturing	9.72	11.60	16.95	12.74	10.42	11.26	10.04	10.20	9.94	8.23	6.85
2.3. Electricity	0.44[c]	0.98[c]	0.26	0.32	0.36	0.55	0.67	0.64	0.66	0.71	0.56
2.4. Water and Sewage			0.09	0.29	0.49	0.85	0.92	0.85	0.94	1.08	0.93
2.5. Construction	6.01	3.95	6.88	5.74	3.85	4.16	4.79	4.99	5.34	8.09	8.57
3. Services	**40.65**	**35.26**	**28.48**	**29.30**	**34.95**	**39.98**	**43.59**	**45.94**	**46.33**	**48.61**	**50.60**
3.1. Trade; Repair of vehicles, Household Goods	23.07[d]	19.44[d]	3.65	3.01	3.21	4.24	5.05	5.68	6.03	6.53	7.12
3.2. Hotels and Restaurants			2.86	2.36	2.51	3.32	3.96	4.46	4.72	4.10	3.88
3.3. Transport and Storage			7.38	5.67	8.20	10.13	11.68	12.12	12.10	12.51	10.78
3.4. Information and Communication			1.44	1.10	1.60	1.97	2.27	2.45	2.56	3.22	7.21
3.5. Financial and Insurance Activities	8.67[e]	6.91[e]	1.53	1.17	1.70	2.10	2.34	2.45	2.50	3.28	4.18
3.6. Real Estate and other activities[h]			2.56	3.30	4.21	4.50	4.52	4.73	4.82	4.46	3.65
3.7. Administration, Defence etc.[i]	8.91[f]	8.91[f]	2.92	3.91	4.55	4.47	4.73	4.79	4.63	5.18	4.55
3.8. Education			2.52	5.34	4.34	4.05	4.08	4.12	4.00	4.00	3.78
3.9. Health and Social Work,			0.98	0.59	0.92	1.55	1.48	1.48	1.36	1.44	1.42
3.10. Community and activities[j]			2.65	2.84	3.72	3.66	3.49	3.67	3.61	3.88	4.03
Less FISM[k]			-10.23	-6.62	-2.97	-0.95	-0.67	1.63	2.00	3.31	4.05
4. GDP (at basic prices)			**101.04**	**95.89**	**92.39**	**92.41**	**93.04**	**93.04**	**93.04**	**93.04**	**93.04**
Net Indirect Prices			-1.04	4.11	7.61	7.59	6.96	6.96	6.96	6.96	6.96
5. GDP in purchasers' value	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Notes: λ- Includes crops and livestock; α - Includes forestry logging and fishing; γ - Includes water and sewage; υ - Include only trade and transport; μ - Includes finance and business activities; χ - Includes Government services. Source: Computed from Appendix Tables in Huq and Tribe, forthcoming, 2017

Distribution of GDP by Industrial Origin

The percentage distribution of GDP at constant prices by industrial origin for selected years from 1965-2015 is shown in Table 6. Over the entire period agriculture's contribution to GDP (having the highest share in 1965 at over 40 percent) fell to a share just below 22 percent in 2015, much less than the 2015 share of the Services sector (just over 50 percent) and slightly lower than that of Industry (just below 25 per cent). Cocoa, which had a clearly leading share in 1965 (at 8.4 per cent of GDP) and even more so in 1970 (marginally over 14 per cent) had fallen so dramatically that in 1980 its share was just below 3 percent and by 2015 the share of cocoa in GDP was only just over 2 percent. Over the entire period the contribution of crop production fell from 27 percent of GDP in 1965 to just over 16 percent in 2015. The fishing sub-sector can also be seen to have experienced a relative decline, falling from 3.5 per cent of GDP in 1975 to less than 1.5 percent in 2015.

The share of the industry sector, which was around 20 per cent of GDP from the mid-1970s to the mid-1970s, fell drastically in the early 1980s (to around 8 per cent of GDP) but, soon afterwards, there was a rapid recovery. The corresponding figure was just below 27 per cent in 2013, but fell to 23.25 per cent in 2015. Manufacturing remained the leading sub-sector within the industry sector for many years: the manufacturing share of GDP varied around 10 percent in 1965 to 1970, but jumped to just less than 17 per cent in 1975, but since then there has been a general decline and, in 2015, it was no longer the leading sector, having been overtaken by the mining and quarrying sub-sector (crude oil and gold production being particularly important). The relative decline of the manufacturing sector is an area of major concern because in a developing country such as Ghana this sub-sector would be expected to play a key role, , especially in employment expansion and export growth. The mining and quarrying sub-sector, which had a share of around 2 to 3 percent of GDP until 2010, has witnessed a significant jump to 7.91 per cent of GDP in 2015, mainly due to the emergence of oil. Over the entire period construction has emerged as one of the main sub-sectors; its share of GDP varying around 4 to 7 per cent from 1965 2005, and the corresponding share has increased recently, to over 8 per cent in both 2010 and 2015.

The services sector, with a share of just over 50 per cent of GDP in 2015, has now emerged as the largest sector in the economy, having contributed about 40 per cent of GDP in 1965. The sub-sectors which show strong relative growth within the services sector are transport and storage (rising from below 7.5 per cent in 1975 to just under 11 per cent in 2015), information and communication (rising from below 1.6 per cent of GDP in 1975 to over 7 per cent in 2015) and financial, insurance and real estate activities (from just over 4 per cent of GDP in 1975 to slightly below 8 per cent in 2015). Notably trade, repair of vehicles and household goods fell from contributing just over 23 per cent of GDP in 1965 to only just over 7 per cent in 2015.

Later chapters in this volume will discuss individual sectors and sub-sectors in more detail than has been possible in this overview of the growth and structure of the economy as a whole.

Savings

The part of the GDP which is not used for private or government consumption is gross domestic savings. Leading development economists such as Arthur Lewis (1954: 155; 1955: Chapter V) and Walt Rostow (1960a: 37; 1960b: Chapter XII) have emphasised the significance of savings and investment for sustaining the process of economic growth and development. Ragnar Nurkse (1953) and Hla Myint (1964: Chapter 6), for example, argued that in low income countries there could be a vicious circle of low income leading to low savings, low investment and back to low income. Failure to break this vicious circle by raising the ratio of savings and investment to national income would result in perpetual stagnation and poverty. The low ratios of savings and investment in Ghana in the early- to the mid-1980s were one of the key factors contributing to the decline of national income at that time.

In any development pattern (capitalism or socialism), for a country to develop it must exert a major effort to improve its savings ratio. Many socialist countries have shown that by following development strategies based on central planning and forced savings it is possible to achieve and maintain a very high ratio of savings to GDP. In non-socialist developed countries the ability to generate sufficient savings to maintain the rate of growth has led to what has been termed self-sustained development.

Table 7 GNI per capita and Gross Savings Rates in Selected Developing Countries (percentage of GDP)

	GNI per capita 2015 (US$ 2010)	1990	2000	2010	2014	2015
Asia						
Bangladesh	1,036	16.42	26.95	38.46	37.73	36.10
China	4,495 (2010)	38.47	36.23	51.27	48.67	NA
India	1,679 (2014)	23.11	25.00	34.16	33.14	NA
Vietnam	1,586	20.42[a]	27.95	30.47	30.38	26.91
South Korea	25,132	33.90	34.25	34.82	34.47	35.54
Africa						
Ghana	1,645	10.53	15.27	15.13	18.49	17.57
Nigeria	2,468 (2014)	22.97	29.36	25.47	22.24	NA
Tanzania	828	10.09	12.61	19.21	20.50	22.69
Uganda	655	5.59	14.36	18.94	19.48	16.01
Cote d'Ivoire	1,272 (2013)	NA	13.29[c]	15.31	NA	NA

Notes: a for 1996; b for 2011; c for 2005; NA = not available
Source: World Bank (2016a).

Table 7 shows per capita income and savings data for a selection of countries, including Ghana, for 1990-2015. No claim is made that this is a representative sample group of countries. However, this table provides evidence of some remarkable contrasts in international economic experience. Generally, a number of Asian countries have sustained historically high savings rates despite having comparatively low levels of per capita income. South Korea, as a particular example, has moved from being regarded as a 'developing' country to an internationally high level of per capita income with a high savings rate (around one-third of GDP). The savings rate of China (about 50 per cent) in recent years has been remarkably high. A number of other Asian developing countries such as Bangladesh, India and Vietnam have also achieved higher savings rates compared to Ghana's. Of the selected Sub-Saharan African countries, Nigeria has managed to maintain its savings rate over 22 per cent, though showing a decline since 2000. Surprisingly, with a much lower per capita income than in

Ghana, Tanzania has not only been increasing its savings rate since 1990 but also the corresponding figure as shown for 2015 (22.69 per cent) is higher than that of Ghana (17.51 per cent). Similarly, Uganda with less than half the per capita income of Ghana has been maintaining a positive trend in savings growth and, in 2014, it had higher savings rate (19.48 per cent) than that in Ghana (18.49 per cent).

The Ghanaian savings and capital formation rates have fluctuated widely since independence. For example, the rate of gross capital formation in 1960 was around 22 per cent, and that it fell to only just over 6 per cent in 1980. Table 8 shows total and average rates of gross savings at 2006 prices for five-year periods between 1961 and 2015. There was a significant decline of the average savings rate from the first half of the 1960s (12.97 per cent) to the first half of the 1980s (6.06 per cent) and, since then a positive trend has been maintained, but during the period 2010-2015, it was 17.87 per cent which is still a low figure for a developing country such as Ghana which is now a lower middle income country and which is keen to maintain a high GDP growth rate. Data for Ghana's gross savings rates for individual years (shown in an Appendix Table to Huq and Tribe, forthcoming 2017) from 1961 to 2015 show that gross savings as a percentage of GDP has not reached the 20 per cent mark since 2005. The failure of Ghana to raise its savings rate is a point of concern especially as the savings-investment gap has remained high, for example 12 to 15 per cent of GDP during 2013-2015, being a basis for macroeconomic instability. Chenery and Strout (1966) and Tanzi (1991), among others, have shown that there are serious limits to deficit financing, and the implications of this need to be considered seriously. However, as may be seen from Table 11, the country has come a long way from the dark period of the negative marginal savings rates which persisted during the 1970s and the first half of the 1980s. With positive marginal savings rate as experienced in recent periods (though with significant ups and downs), there is now the prospect of the average savings rate moving up.

Table 8 Average and Marginal Savings at 2006 prices, 1961-2015

Period	1961-65	1965-70	1970-75	1975-80	1980-85	1985-90	1990-95	1995-00	2000-05	2005-10	2010-15
Average Annual Savings (GH₵ millions)	754.82	691.18	846.85	568.24	412.56	778.20	1,428.41	1,799.95	3,264.32	2,876.16	5,636.66
Change in Annual Savings during the period (GH₵ millions)	-143.28	434.58	69.73	-543.14	112.26	377.14	1,010.96	137.43	1,281.24	266.45	2,473.15
Average Savings Rate (% of GDP)	12.97	10.88	11.53	8.05	6.06	9.28	13.67	14.23	20.62	13.55	17.84
Marginal Savings Rate (%)	-20.92	46.74	-80.48	-161.76	-72.31	19.98	48.03	5.24	33.45	4.09	23.06

Notes: The Marginal Savings Rate has been calculated as: In each period, S_p - S_o/Y_p - Y_o, where S_p is Saving in the end year and S_o is the saving in the original year, and Y_p is the GDP in the end year and Y_o is GDP in the original year, shown as a percentage.
Sources: Calculated from Appendix Tables in Huq and Tribe, forthcoming, 2017

6. Achieving Macroeconomic Stability

Following a decade of economic decline the ERP introduced radical changes in 1983 which replaced state-led economic policy with market-led economic policy. This change involved the return of Ghana to the international economy after a period during which the servicing of debt had been suspended, and relations with the international financial and economic community (including the World Bank and the IMF) had deteriorated to a point where the World Bank had closed its Accra office in 1980 (Zack-Williams, 1997: 65). The content of the ERP, and the vigour with which it was implemented, was sufficient to re-establish Ghanaian relations with the international economic and financial community, with debt servicing resumed, and Ghanaian international credit-worthiness starting to improve.

From an analytical viewpoint, as well as from a policy viewpoint, the interesting question (or set of questions) is why and how the recovery and sustained growth was achieved. There is a range of factors which contributed to this recovery and growth, and an attempt will be made to identify them here.

We consider the following factors to be significant:

a) Fundamental to the reforms was an initial devaluation of the cedi to bring the exchange rate closer to an international 'parity'. The first stage of this devaluation was achieved through the adoption of bonuses and surcharges, but after several further devaluations (when the 'official' exchange rate was formally changed) a market-led exchange rate was established, monitored and managed by the Bank of Ghana but not determined by the Bank or by the Ghana Government. There was a major positive impact of these changes on the cocoa production, marketing and export system so that foreign exchange receipts rose significantly.

b) A liberalisation of interest rates so that positive real interest rates would potentially i) attract savings to the banking system and ii) make borrowers more sensitive to the real returns to investments funded through financial intermediaries.

c) The devaluation was accompanied by a series of price changes / reforms to the pricing of public services as part of the process of unifying 'parallel markets'.

d) The ERP led to considerable levels of international borrowing (notably from the IMF) as a basis for honouring international debt servicing obligations, and for proceeding with the rehabilitation of the economy (which included the physical rehabilitation of the capital stock following years of chronic underinvestment).
e) In addition to the international borrowing Ghana received considerable amounts of Official Development Assistance (ODA – Foreign Aid) which also contributed to the re-establishment of public services – and to rehabilitation of the economic and social infrastructure. In the early 2000s Ghana benefitted to a considerable extent from debt relief under the Heavily Indebted Poor Country (HIPC) programme and the subsequent Multilateral Debt Relief Initiative which involved further considerable capital inflows.
f) The economic reforms, and the improved working of the economy gave a basis for the attraction of private foreign investment, notably in the partially privatised gold mining industry. The resumption of significant gold exports provided very significant amounts of foreign exchange as a further basis for the strengthening of the economy.
g) A programme of divestiture / privatisation of state owned enterprises and public service providers in association with institutional reform which has included the establishment of new regulatory bodies.

Table 2 earlier in this paper sets out some selected indicators of Ghana's macroeconomic developments, complementing tables which appear earlier parts of this paper. Previous discussion has drawn attention to the decline in GDP growth, and in GDP per capita, which occurred in a decade starting in the early- to mid-1970s, and which was followed by recovery and sustained growth. The very low level of savings and investment in the economy, which was acute in the early 1980s, although increasing to a higher level after the mid-1980s, was still at a relatively low level by international standard in recent years. The sectoral, and sub-sectoral, balance of the economy is shown in Table 9, with the proportion of GDP contributed by agriculture falling from about 40 percent in 1965 to 22 percent in 2015, the services sector contribution rising from about 40 percent to 50 percent over the same period, and industry rising from 18.5 percent to just below 25 percent. Three of the notable issues within the sub-sectoral contributions to GDP are the relative decline of manufacturing since the mid-1980s, the rise in the contribution of construction and the recent addition of a substantial contribution from crude oil production (and export).

In Table 2 there is some repetition in terms of data on the position of foreign trade in the Ghanaian economy, but here instead of presenting data for every fifth year the data consists of five-year averages. Nonetheless, the 'picture' is the same as that shown in Table 8, with officially recorded exports and imports declining sharply between 1975 and 1985 and then recovering strongly after 1985. Table 2 also shows Foreign Direct Investment (FDI) as a percentage of GDP, with this series also recording a significant increase after 1990. FDI has fluctuated, but at a historically high level, in the years since the introduction of the ERP and in part reflects the renewed investment in gold mining and investment in oil/gas exploration and exploitation both of which have been associated with higher levels of foreign exchange earnings.

The Annual Inflation data shown in Table 2 tells an interesting story. The inflation measure (based on the consumer price index) was relatively low in the latter part of the 1960s, but accelerated strongly through to a 1976-1980 peak before falling back and gradually declining through to 2011-2015 when the five-year average was 12.43 percent per annum. Two particular points arise from these data. First, is the fact that internal inflation in the period 1966 to 1983 occurred in a period when a fixed foreign exchange rate regime was in place, with only rare changes in the official rate. This fixed exchange rate, when combined with the high domestic inflation, led to an increasing degree of overvaluation of the Ghanaian cedi, and to a range of economic 'dislocations' which only started to be resolved with the move to a more flexible foreign exchange rate regime from April 1983 when the ERP was adopted. Second, the five-year average annual rates of inflation shown in Table 2 conceal significant variations year on year, particularly in the mid-1980s. In 1983 the annual rate of inflation was over 120 percent as a result of the drought experienced in 1983-84 (even higher than the 116 percent recorded in 1977), but inflation fell considerably in 1984 (to just below 40 percent) when rainfall returned to more normal patterns, demonstrating the importance of domestic food prices within the calculation of the consumer price index. The initial devaluation in April 1983, and the subsequent continuing devaluation, would also have contributed to the inflation rate.

The Fiscal Balance: Domestic and External Financing

Table 12 shows that over the period since 1961 the level of Government revenue has tended towards a long-term average of 20 percent of GDP. Government expenditure has, on the other hand tended towards an average which is significantly higher than this. For the five-year period averages shown in the table the ratio of Government expenditure to GDP was about 30 percent in 1961-1965, fell to a low of under 8 percent in 1981-1985, then rose to a peak of slightly below 30 percent in 2001-2005 before ending at just below 27 percent of GDP in 2011-2015. The low level of government expenditure in the mid-1980s was matched by low levels of government revenue – below 9 percent of GDP in 1976-1980 and only just over 4.5 percent in 1981-1985. The conventional wisdom, represented by the Washington Consensus (WC) and by the neo-liberal agenda more broadly, has taken the view that persistent government deficits need to be met with attention to controlling the expenditure side of the government account. However, for Ghana and many other sub-Saharan African countries the problem has rather been associated with difficulty in generating government revenue. The need for effective government services, and public services more generally, in support of economic recovery from the 'trough' of the mid-1980s and of long-term sustained growth required – in the case of Ghana at least – a significant increase in government revenue. Attention has been paid to improving the monitoring, control, auditing and evaluation of government expenditure in terms of Ghana government priorities as well as in relations between the Ghana government on the one hand and the international financial institutions (IFIs – the IMF and the World Bank) and the international donor community (such as the Development Assistance Committee – DAC – of the OECD) on the other (see for example Wood et al., 2011; Quartey et al., 2011). Developments on the revenue side of Ghanaian public finance will be discussed a little later in this chapter.

Table 2 also shows that the fiscal balance, before allowing for funds provided by international finance (including foreign aid – Official Development Assistance – ODA), in

Ghana has been negative for most of the period 1961 to 2015. In eight of the five-year periods the fiscal balance was negative, and in the other three it was positive. The ready availability of comparable data relating to government revenue and expenditure is not as systematic as would have been hoped, but for recent years it is possible to make some more detailed comments on the funding of the deficit. The Ministry of Finance website has a section which contains extremely detailed data relating to government accounts – both for revenue and expenditure – from 2008 to 2015 (Republic of Ghana, 2017a). Included in this Ministry of Finance data is the identification of the contribution of domestic and of international financing to the 'covering' of the fiscal deficit. Taking a three-year average for 2008 to 2010 the average fiscal deficit was 5.93 percent of GDP and for 2011 to 2015 it was 4.95 percent of GDP.

Table 9 Central Government Capital and Recurrent Expenditures, 1960–2015

Period	As percentage of GDP		
	Capital Expenditure	Recurrent Expenditure	Total
1961-65	11.08	18.46	29.53
1965-70	4.61	15.97	20.58
1970-75	3.99	14.44	18.43
1975-80	3.98	11.89	15.86
1980-85	1.03	6.85	7.88
1985-90	2.49	7.00	9.49
1990-95	3.95	8.86	12.81
1995-00	5.09	8.98	14.08
2000-05	10.19	19.71	29.90
2005-10	6.42	13.83	20.24
2010-15	5.48	21.24	26.72

Source: Calculated from Appendix Tables in Huq and Tribe, forthcoming, 2017

Part of the foreign financing of the fiscal deficit is contributed by foreign aid, and to the extent that foreign aid contributes mainly to government capital investment only part of this funding would go towards covering the deficit on current account (as opposed to the capital account). With the adoption of the Medium Term Expenditure Framework (MTEF) approach to budgeting current account and capital account budgets were consolidated from the late-1990s (Holmes and Evans, 2003; Le Houerou and Taliercio, 2002; Short, 2003; World Bank, 1998 and 2013) in order to allow more effective financial planning. In addition to the consolidation of current and capital accounts the MTEF involves the adoption of a three-year rolling approach to public sector budgeting, and was adopted not only in developing countries but also in many developed countries as part of a global reform of public finance practices.

Table 9 sets out data comparing Ghana government recurrent and capital expenditures as five-year averages from 1960 to 2015. Again, the significant decline in the proportion of GDP accounted for by current expenditure in the period from the early- to mid-1970s until late in the 1990s is very apparent. However, it is the level and fluctuations in government capital expenditure which is especially interesting. In the period 1961 to 1965 this accounted for over 11 percent of GDP, but it fell steadily to only just over 1 percent of GDP in 1980 to 1985. Although government capital expenditure recovered from this extraordinarily low level through the later 1980s and the 1990s by the turn of the century it had still not reached the level of the early 1960s. Then there is a considerable increase over the period 2000 to 2005, with a decline to between 5 and 7 percent of GDP in the 2005 to 2015 period. The behaviour of public capital expenditure is even more testament of the economic management problems experienced in Ghana than the behaviour of public current expenditure.

In a broad survey covering 60 years of Ghana's fiscal policy Osei and Telli (2017) summarise the development of Ghana's public finances:

> "The story of Ghana, in terms of fiscal policy has been dominated by fiscal slippages and persistent deficits, an outcome which has largely been driven by uncontrolled public expenditure. However, revenue mobilization has also been constrained, in the early years (1960s and 1970s), by an inefficient tax system and challenges with the tax administration, and later (in the post-ERP and SAP period), by difficulties in taxing the flourishing informal sector in Ghana. The foundations of these fiscal developments in Ghana were laid at the birth of the nation when the shift was made from the private sector to the public sector as more public expenditure to provide the

> physical, social and industrial infrastructure, supposedly for growth. Unfortunately, little emphasis has been placed on using fiscal policy to create a favourable macroeconomic environment that promotes private sector-led growth. The result is that fiscal deficits have contributed negatively to economic growth in Ghana. This implies that, in spite of its preponderance, government spending has been largely inefficient at generating the expected growth." (Osei and Telli, 2017: 85-86)

The failure to balance expenditure against revenue received by the Government of Ghana is a serious concern. One particular factor is that, as observed by Osei and Telli (2017: 73), since the early 1990s "the fiscal policy outcomes have largely revolved around the political business cycle of Ghana such that during elections years (every four years), the government runs a relatively large budget deficit driven by higher government spending rather than low revenues, then spends the next two or three years consolidating the budget and reducing the deficit, after which it increases the deficit again in the year of political elections." This feature has been termed as "fiscal excesses during election cycles" by Asiama et al. (2014: 1). These "fiscal excesses" represent a clear case of unsatisfactory macroeconomic mismanagement (see, e.g. Aryeetey and Harrigan, 2000; Younger, 2016). As observed by Asiama et al. (2014: 3): "The surge in government debt to GDP ratio since 2006 is largely attributable to persistent expenditure overruns despite government's resolve to vigorously pursue fiscal consolidation as stipulated in the successive annual budget statements. The fiscal slippages have been aggravated by the rising public sector wage bill due to the implementation of the single spine salary structure (SSSS) accompanied by the weakening revenue generation efforts, resulting in rapid government debt accumulation. From a three-decade low of 26 percent of GDP in 2006, Ghana's public debt to GDP ratio rose to 57.7 percent as at the end of 2013, only 2.3 percent below the IMF's critical debt threshold of 60 percent of GDP" (Asiama et al., 2014: 3).

Based on close investigation, Osei and Telli found that:

> "the persistence of expansionary fiscal policies and deficits resulted in periods of debt crisis and of challenges with debt sustainability. For instance, in 1983 at the time when Ghana embarked upon the ERP, the stock of public debt to GDP was 107.5 percent. As a result of a more restrained fiscal policy regime under the ERP and SAP the stock of public debt was reduced to 27.7 percent of GDP. From 1992 public debt rose rapidly again (particularly in election years) to 187.3 percent of GDP in the year 2000 when Ghana signed up to the Highly Indebted Poor Country (HIPC) Initiative (Asiama et al., 2014). At that time 42 percent of government revenue was spent on interest payments alone (a situation which contributed to the high level of recurrent expenditure). However, as a result of the debt relief provided by the HIPC initiative, government was able to reduce the interest payments allowing it to have more flexibility to control government spending over the period up to 2004 .... Thus, persistent expansionary fiscal policies that result in deficits can lead to an accumulation of a high public debt stock, which may become unsustainable and make it harder to control future government expenditure" (2017: 73).

Tanzi's observations in his seminal book on public finance in developing countries is salutary: "*Ex ante*, a country can plan to have, for a given fiscal year, any level of public expenditure and fiscal deficit. However, *ex post*, the maximum deficit that it can have (expressed as a proportion of GDP) will be limited by the sources of financing. Some of these sources are likely to be inflexible. Others can be increased up to a point, if the country is willing to pay a price in terms of higher real interest rates for domestic bond finance, or a higher rate of inflation for domestic finance." (Tanzi, 1991: 102) These remarks also apply to the raising of finance from international bond markets which is discussed below.

The extremely low level of Government revenue as a percentage of GDP during the first half of the 1980s (only 4.54 percent, Table 12), fortunately, witnessed a quick recovery. The unification of parallel markets following the introduction of the ERP was one factor which would have contributed to higher levels of government revenue, and another was the devaluation of the cedi (which increased the domestic price – and tax-take – of exported cocoa beans and was part of the unification of parallel markets). However, there were additional issues associated with government revenue which were within the 'liberalisation agenda' of the IFIs and of the Ghana Government. A reduction in the level of export tax, or its elimination, in order to increase the domestic producer price of cocoa beans, which were still the main export product for Ghana in the late 1980s and early 1990s, was intended to stimulate higher levels of production, to ensure that most domestic production was marketed within Ghana rather than being initially exported to neighbouring countries, and to encourage the production of better quality beans as a means of increasing foreign exchange earnings. This was consistent with the Washington Consensus (and neo-liberal) principle of reducing taxes on trade. However, if the export tax, which had been generating as much as one-fifth of government revenue in some years, was reduced or abolished a replacement form of taxation was required. If taxes on imports were also reduced, again in line with the economic reform agenda, this would also have the effect of reducing government revenue. The solution favoured by the IFIs was the introduction of Value Added Tax, and, like many other measures introduced in association with SAPs, this was again a reform which was favoured globally and not just for Ghana. The quotation from Osei and Telli (2017: 85-86) is, of course, directly relevant in this respect. Taxes on trade are discussed in section 12.2 in the context of trade policy and trade liberalisation.

Foreign capital inflows, which are considered in some detail in Chapters 13 and 14, consist largely of remittances, private investment, overseas borrowing on non-concessional terms, Official Development Assistance (foreign aid – see section 4.6 below) and international private charitable aid. In recent years the phenomenon of 'blending' has, to some extent, reduced the clarity of the distinction between these various sources of international finance (Tribe, 2015: 9-10; Africa Progress Panel, 2014: Chapter 4).

In order to supplement foreign financing provided by ODA with effect from 2007 the Ghana Government has resorted to borrowing on international bond markets. As Reuters reported, the first time the Ghana Government raised funds on the international bond market in 2007, the loan was four-times over-subscribed and the interest rate for a 10 year loan of US$750 million was 8.5 percent. The same report indicated that the second approach to the international bond market (in 2013) resulted in a three-times oversubscribed loan of another US$750 million at 8 percent, as compared with the regular interest rate of 6 percent at that time, a premium of 2 percentage points (Reuters, 2013). In 2016 the World Economic Forum reported on approaches by African countries to the international bond market: this report showed that Ghana had borrowed more than any other sub-Saharan African country from this source, totalling over US$3.5 billion between 2006 and 2015 (World Economic Forum, 2016). The London based *Financial Times* reported in September 2016 that a failed attempt to access this market to the extent of US$750 million earlier in that year implied that a further attempt might require a higher interest rate to be offered as compared with the 9.25 percent associated with the original specification (FT, 2016). In early 2017 the Ministry of Finance announced that "Ghana's bid to raise US$1 billion from the international capital markets has been oversubscribed. Ghana will issue US$750 million [at] 7.875 percent" (Republic of Ghana, 2017b). This gives some indication of the level of funding sought from international markets and the comparatively high rates of interest associated with this borrowing. International debt is discussed further in Chapter 13 in this volume.

7. Ghana's Macroeconomic Policy: The Role of the IMF and the World Bank

The discussion in this paper has emphasised that following the economic decline of the 1970s and early 1980s the Ghana Government adopted a comprehensive economic reform programme in April 1983: the Economic Recovery Programme (ERP). Although the ERP was, to a large extent, 'home-grown', it had to be 'acceptable' to the World Bank and IMF and to the international financial/economic community. Essentially the structure of the ERP, and of the subsequent re-design of economic policy, was consistent with the principles which have become known as the 'Washington Consensus' – the WC (see Tribe, 2017). Many of these principles are reflected in the list of policy initiatives included earlier in this paper. The continuing relationship between Ghana, the IMF and the World Bank, was associated with a greater degree of stability than had been experienced in the decade before 1983 and involved access to international funding through programmes such as the Extended Structural Adjustment Facility (ESAF) of the IMF, but this came with significant 'supervision' of economic policy and its implementation.

Huq and Tribe (forthcoming, 2017) includes a table of policy measures agreed between the Ghana Government, the IMF and the World Bank (the IFIs) in 1998.[3] The table referred to demonstrates very clearly the degree of detail involved in the supervision of Ghana's economic policy process by the IFIs. A similar line of 'supervision' is evident in the development of the revised national income accounts for Ghana (IMF, 2014).

In this type of relationship, between Ghana and the IFIs, it is never clear whether the initiative lies with the individual country or with the IFIs. In other words, is the agenda set by Ghana or by the IFIs, or is there perhaps some kind of synergy between the two – with one sometimes taking the lead and sometimes the other taking the lead? A 'rigid' version of IFI 'conditionality' would argue that the IFIs impose policies on the individual country, while a more flexible version would argue that within an overall acknowledgement of the need for economic and financial discipline the IFIs are often in the position of 'reminding' the local government of their economic policy commitments.

Table 10 shows the types of policy measures associated with IFI 'conditionality' across a range of countries relatively early in the Structural Adjustment Loan (SAL) process as set out in the research study by Mosley, Harrigan and Toye (1995). This research included nine country case studies, of which one covered Ghana. The contents of Table 4.3 give support to the view that many of the 'conditions' (i.e. policy measures requested) linked to SALs tended to have a 'one size fits all' character, meaning that the policies which were requested came from a pre-determined set which were broadly the same for all countries.

The policies were not only broadly the same between countries but these were also closely linked to the conditions which were later to be articulated within Williamson's 'Washington Consensus'. This essentially means that Ghana was 'not alone', and that the policy agenda favoured by the IFIs bore a close resemblance to those applied to other countries negotiating SALs.

Table 10 Types of Policy Measure Requested in Return for Structural Adjustment Loan Finance 1980-86

Measure	% of SALs subject to conditions in this area
Trade Policy	
Remove Import Quotas	57
Cut Tariffs	24
Improve Export Incentives etc.	76
Resource Mobilisation	
Reform Budget or Taxes	70
Reform Interest Rate Policy	49
Strengthen Management of External Borrowing	49
Improve Financial Performance of Public Enterprise	73
Efficient Use of Resources	
Revise Priorities of Public Investment Programme	59
Revise Agricultural Prices	73
Dissolve or Reduce Powers of State Marketing Boards	14
Reduce or Eliminate Some Agricultural Import Subsidies	27
Revise Energy Prices	49
Introduce Energy-Conservation Measures	35
Develop Indigenous Energy Sources	24
Revise Industry Incentive System	68
Institutional Reforms	
Strengthen Capacity to Formulate & Implement Public Investment Programme	86
Increase Efficiency of Public Enterprises	
Improve Support for Agriculture (marketing etc)	57
Improve Support for Industry and Sub-Sectors	57
(including price controls)	49

Source: Mosley et al. (1995: 44, Table 2.3).

There is one other major issue which needs to be recorded in this discussion of the relationship between the IFIs and the Ghana Government – this is how to address the 'poverty issue'. A special programme called the *Programme of Action to Mitigate the Social Cost or Adjustment* (PAMSCAD) was devised in order to attempt to rectify income and employment losses arising from the impact of policy measures implemented as a result of economic reforms (of the type introduced by the ERP of 1983 and subsequently associated with SAL conditionality). A brief article by Gayi (1991) outlines the main features of the programme, which was introduced in around 1987. By the late 1990s it was clear that the form of economic regeneration associated with the outcomes from structural adjustment / economic reform was not impacting as effectively as had been hoped on poverty and poverty reduction. A switch in World Bank priorities, coinciding with the start of James Wolfensohn's tenure as Managing Director, led to a considerably greater focus on a poverty reduction objective, and this led to the introduction of Poverty Reduction Strategy Papers (PRSPs) for a large number of countries (including Ghana).

Internationally the development of the poverty reduction priority within the IFIs, and also within the international donor community, represented a considerable modification of the 'conditionality' approach to what might euphemistically be termed 'policy guidelines' associated with aid programmes and with international lending programmes of the IFIs more widely.

8. Ghana Government Economic Policy and Neoliberalism

What is clear from the range of documents reviewed in the process of preparing this volume is that the Ghana Government has repeatedly expressed the intention of following a 'market-based' approach to economic policy, with an emphasis on private sector development. This contrasts with the essentially 'dirigiste' approach of the period between independence and the adoption of the ERP. For example, the *Growth and Poverty Reduction Strategy (GPRS II) (2006–2009)* (Republic of Ghana, 2005: 6-7) outlines the government's policy priorities thus:

> "Accordingly, emphasis in this GPRS II is placed on measures to change the structure of the economy by developing the private sector, diversifying the export base and increasing agricultural productivity, processing and rural incomes. While the GPRS I focused on poverty reduction programmes and projects, the emphasis of GPRS II is on growth-inducing policies and

programmes as which have the potential to support wealth creation and poverty reduction. GPRS II is therefore anchored on pursuing the following priorities:

- Continued macroeconomic stability
- Accelerated private sector-led growth
- Vigorous human resource development
- Good governance and civic responsibility

Continued macroeconomic stability will be realized by ensuring prudent fiscal policy management, effective monetary policy, and a well-managed debt and international trade regime. It is accepted however that the highly reserved posture of macroeconomic policy which was appropriate to the convalescent economy under GPRS I has to be modified to meet the needs of a more expansionary thrust of policy under GPRS II. The Bank of Ghana is already leading the way by introducing measures such as the reduction in banks' reserve requirements and the lowering of the cost of credit to business on a broad front."

John Williamson, who articulated the Washington Consensus, summarised many of the associated issues in a lecture given at the World Bank (2004). In a footnote to the text of his lecture Williamson refers to the interpretation of the concept of neo-liberalism in terms of its "original meaning expressed by the Mont Pèlerin Society". Eamonn Butler has produced a brief history of the Mont Pèlerin Society (Butler, 2017), the website of which makes its position clear: "Though not necessarily sharing a common interpretation, either of causes or consequences, they [the members] see danger in the expansion of government, not least in state welfare, in the power of trade unions and business monopoly, and in the continuing threat and reality of inflation" (MPS, 2017). With the ERP and its successors, which like most of the IFIs' Structural Adjustment Programmes reflected the principles of the Washington Consensus, the approach of the Ghana Government to economic policy since the mid-1980s has widely been interpreted as representing 'neoliberalism'. This raises the questions of the nature of neo-liberalism, and of its relationship to the principles and practice of Ghanaian economic policy over the last three decades.

An especially illuminating article by Mavroudeas and Papadatos (2007) analyses the connection between the principles of neo-liberalism and of the Washington Consensus, and the developmental outcomes which have arisen from the adoption of these principles across a large part of the 'developing' world. Neoliberalism can be regarded as fundamentally relating to the primacy of 'the market' rather than of government in managing the economy. The emphasis which is placed on de-regulation within liberalisation programmes which broadly follow neo-liberal principles reflects the primacy of the market. Neo-liberal values are therefore based on 'free' markets, 'free' trade, private enterprise and consumer choice. However, when referring to 'free' markets we should perhaps bear in mind the dictum of Jean-Jacques Rousseau that 'man is born free, and everywhere he is in chains': the corollary of 'free' markets is a body of law and regulation which reflects the significance of market failures. Of course, market failures are more prominent in the writing of structuralist and heterodox economists than they are in the writings of neo-liberal economists.

In the case of Ghana the adoption of a large degree of liberalisation since 1983, as outlined in several chapters within this volume, has been tempered by significant involvement of the public sector and of government in the economy and by significant participation in economic decision making by the IFIs (and by the donor community). One example of public sector involvement is outlined in Chapter 15, dealing with the energy sector (and water and sanitation), where most electricity generation capacity in the mid-2010s is publicly-owned and the sector's pricing policy is controlled by the Public Utility Regulatory Commission (PURC).

However, in the 2010s there is widespread participation of the private sector in activities, such as education, which had formerly been the preserve of the public sector. The process of unwinding the dysfunctional collection of state-owned enterprises through divestiture (privatisation) and regeneration has been long and drawn out. So, while at the macroeconomic level there has been considerable liberalisation – for example within the trade and financial sectors (including the foreign exchange market and interest rates) – at the microeconomic level the process of liberalisation has been more uneven.

A particular criticism has been that the version of neo-liberalism adopted by the Ghana Government has not been accompanied by an emphasis on the development of local private enterprise. Indeed Opoku suggests that there has been an anti-private capital ethos within the bureaucracy, and that this was particularly the case during the Rawlings era (1982 to 2000) (Opoku, 2010). Opoku advances two main sets of arguments. "The first is that Ghana's patronage-based politics and the accumulating strategies of rulers meant that political – not economic considerations dominated policy making and government attitudes, leaving little room for autonomous capitalists. My second argument is that some of the same policy measures designed to promote capitalist growth also spawned challenges that limited the ability of Ghanaian capitalists to expand. Thus, the basic character of African political economy and neoliberal policy prescriptions are critical to an understanding of my research questions" (Opoku, 2010: Preview). Ayelazuno (2014) is even more critical, identifying 'neoliberal economics' as the root cause of the lack of a transformation of the economy over the 30-year period since 1983, also viewing industrialisation as the route to a 'modern economy'.

9. The Way Forward

From the time of its independence in 1957, Ghana's economic development has attracted serious attention from many economic researchers. The most prominent of these was probably the Nobel Laureate Arthur Lewis. In 1953, for the British Colonial Office, Lewis prepared a very influential 'template' for industrialisation policy in sub-Saharan Africa. This document was also published by the colonial government of what was then the Gold Coast. (Lewis, 1953). In 1957 Lewis was appointed economic advisor to the newly independent government of Ghana. As a strong proponent of sound and rapid economic development, Lewis's imprint was to be found on many, but not all, economic policies; he was closely involved in the preparation of the Five-Year Development Plan 1959–1964 (Government of Ghana, 1959).

In the years which followed, Ghana continued to attract keen interest from many other researchers and in preparing this volume, we have not only benefited greatly from the deep insights of many of these authors but at times have also borrowed heavily from a number of their contributions. These studies include works by Birmingham et al. (1966), Omaboe (1969), Killick (1978 and 2010), Huq (1989), Aryeetey, et al. (2000), Aryeetey and Kanbur (2008), Ackah and Aryeetey (2012), Appiah-Adu and Bawumia (2015) and Aryeetey and Kanbur (2017).

With the achievement of independence, hopes were widely entertained that Ghana, a nation rich in natural resources and human potential, would prove to be the 'show-piece' of African economic development - a model for others to follow. However, things started going wrong in the mid-1960s and the economic crisis became particularly severe in the late 1970s and the early 1980s, with GDP going downhill. That process of worsening performance was described in detail in the first edition of this volume (Huq, 1989). Fortunately, while many other developing countries found themselves bogged down in similar crises, Ghana was able to find a way out of the economic mess into which it had fallen. In 1983 a dramatic change in economic strategy was instituted, abandoning the *dirigiste* approach which had been followed for much of the independence period and opting instead for an alternative strategy relying on market forces rather than government intervention.

The adoption of the Economic Recovery Programme was a courageous move and the record of economic achievements in the years since 1983, is, despite some reservations - as discussed in detail in the various chapters of this volume – strong proof of its success. For example, the average annual growth rate of GDP was 3.6 percent from 1983 to 1990 as compared to –0.91% from 1970 to 1983. At 2006 prices, GDP per capita increased from GH₵526 in 1983 to GH₵617 in 1990; growth has subsequently been maintained, with the corresponding figure reaching GH₵1,271 in 2015.

Resource Allocation with Government Controls versus the Neoliberal Strategy

It is now well recognized that administered resource allocation with government controls, as practised during a large part of the independence period until the early 1980s, was disastrous. The key message is that if a developing country such as Ghana, with serious limitations in its administrative capacity wishes to practise tight state controls in resource allocation, as was done especially in the late 1970s and the early 1980s, things are, indeed, going to be disastrous. In such a system of administered resource allocation, one would expect not only clear directions from the planning authorities but also the systematic application of a set of shadow prices (also called social or accounting prices). Unfortunately, in the case of Ghana, while market prices remained highly distorted, there were no central guidelines for the use of such shadow prices. Thus, there were systematic failures in investment decision making, as discussed in some detail in the first edition of this book (Huq, 1989: 256-75). Not surprisingly under these disorganised conditions, different investing agencies (with close involvement in project implementation) were using a variety of different criteria in appraising projects, as may be seen from Table 11.

Table 11 Estimation and Use of Shadow Prices by Selected Investing Agencies, Early 1980s

	Use of shadow prices	Estimate of shadow prices	Shadow prices: Foreign exchange (₵ per US$)	Shadow prices: Unskilled labour (ratio of wages)
National Investment Bank	Yes	Partial	10.00	0.75
Ghana Investments Centre	Yes	Partial	3.58	0.50
Bank of Ghana	No	None	-	-
Agricultural Development Bank	No	None	-	-
Ghana Industrial Holding Corp.	No	None	-	-

Notes: Information from the first four organisations was collected in February-March 1983, while that from GIHOC was in April-May 1984. The official foreign exchange rate per US$ was ₵2.75 from September 1978 to October 1983.
Sources: Huq (1989: 261) from questionnaire returns and personal interviews

As was entirely predictable, macroeconomic management and economic performance moved from bad to worse, with the result that by the early 1980s the economy was almost in a state of collapse. By contrast, the liberalised policy regime instituted in 1983 led to notable success, especially as indicated by the growth of GDP and GDP per capita (outlined earlier in this paper). To many of those familiar with the severe economic crisis that Ghana experienced in the late 1970s and early 1980s it is almost unbelievable that such a turnaround was possible.

It would appear that in praising the Ghana government's 'neoliberal' approach to economic policy (including flexible foreign exchange rates as well as an increased significance for private sector involvement in the economy), the emphasis has been on the deficiencies of the planning approach. In an economy such as that of Ghana, there are evidently very serious limitations arising from the adoption of state-administered resource allocation. However, it is also necessary to be aware of the limitations of dependence solely on market forces as a mechanism for resource allocation, especially given that market imperfections are common.

There is growing concern in academic and other circles that the belief in the beneficial effects of "globalisation" (a concept advanced in the early 1980s to promote neoliberalism in a global perspective) has been based upon political ideology rather than being founded on sound economics. For example, Cross and Strachan (2001: 182) suggest that the supporters of globalisation have tended "to ignore, dismiss or underplay the role played by activist government interventions in successful growth and development strategies. This tendency was evident in the World Bank's assessment of the East Asian Miracle." Critics argue that 'efficiency' arises from competition, from incentives, and also from a regulatory structure which encourages firms to compete, rather than from private ownership *per se*. There are as well significant objections to the idea that trade liberalisation is in itself an effective route to growth (Baldwin, 2003; Yanikkaya, 2003). Liberalising a nation's trade regime will only lead to higher growth if the country is in a position to take advantage of new opportunities. In order to benefit from the opening up of its markets a country must possess adequate infrastructure and technological capability, its workers must be educated and trained as well as having skills relevant to the modern economy. If this is not the case, trade liberalisation may destroy more jobs than it creates when inefficient national firms are forced to compete with their better prepared international counterparts.

The preference of the Washington Consensus for liberalised capital and financial markets has been the subject of sustained criticism, especially in the aftermath of the East Asian crisis of 1997 (see for example Klein, 2003; and Huq and Tribe, 2004.) Soros (2002) and Stiglitz (2002), among others, have also been vehemently opposed to the way that globalisation has been promoted. According to the former, globalisation is nothing more than *'market fundamentalism'* alternatively packaged, suggesting that it has been shown to be seriously flawed; he is emphatic in saying that it is "dangerous .... to place excessive reliance on the market mechanism." (Soros, 2002: 6). Equally, Stiglitz (2002) believes that 'ideology and politics' are the main factors leading the Washington establishment to emphasise the globalisation strategy, and that there is serious failure on the part of the IMF in neglecting to recognise that markets, by themselves, cannot lead to efficient outcomes.

It is also necessary to remind ourselves that in a democratic society, the achievement of distributive justice also demands attention, but the preference of the neo-liberal approach is to leave that to market forces. A visionary welfare role for government is unlikely to feature in such a policy environment.

Learning from the Asian Development Experience

In the developing world, during the latter part of the 20th century, there took place some truly "miraculous" instances of development in East Asia, especially in four countries of this region – namely Singapore, South Korea and Taiwan - which demonstrated the possibility of achieving economic growth which was both rapid and sustained. Hence the title of World Bank's famous volume, *The East Asian Miracle* (World Bank, 1993).

Wade (1990), who closely studied South Korea and Taiwan in the late 1980s, observes that the rise of East Asia "is one of the biggest stories of the twentieth century. In the quarter-century that began in 1960 Japan grew just under 7 percent a year. The rapid success achieved by East Asian countries, known as "Asian Tigers" because of their tremendous achievement in transforming what were once backward developing countries in a short period time, has been advanced as providing a strong supporting case for a significant state role in economic development, Furthermore, the so-called "little tigers" of Taiwan, Korea, Hong Kong, and Singapore grew at more than 8 percent." (Wade, 1990: 34) Another highly respected economist, Alice Amsden, studied South Korea's industrialisation around the same time as Wade and was also amazed by the rapid development of the country. Her book (*Asia's Next Giant: South Korea and Late Industrialisation*, 1989) vividly narrates this success story. Hoping to learn from the miraculous successes of the "tigers", Sanjaya Lall (1995) delves specifically into their industrial and technology policies.

From the experiences of economic development of the Asian tigers, a key lesson which comes out clearly is that although liberalised policy measures have been pursued, the state has maintained a pro-active role especially so in South Korea and Taiwan. Such a state role has been one of guiding the market as is made clear by Wade (1990) in the title of his book, *Governing the Market: Economic Theory and the Role of Market in East Asian Industrialization*. Amsden (1989) is also particularly emphatic that the state's role in 'late industrialisation' is to mediate market forces, especially by intervening to address the needs of both savers and investors, and of both exporters and importers, among other areas.

Table 12 Some Industrial Policy Objectives of South Korea and Taiwan: Early Development Phase

	Raising Local Content	***FDI Strategy***	***Raising Technological Effort***
South Korea	Stringent Local-content rules; Creating support industries; Protection of local suppliers; Sub-contracting promotion	FDI kept out unless necessary for technology access or exports; Joint ventures and licensing encouraged	Ambitious plans for local R&D in advanced industries; Heavy investment in technology infrastructure; Targeting strategic technologies
Taiwan	Strong pressures for raising local content and sub-contracting	Screening FDI; Entry discouraged where local firms strong; Local technology diffusion pushed	Intensive technology support for local R&D & upgrading especially for SMEs; Government orchestrated high technology development

Source: Lall (1996: 16), *Learning from the Asian Tigers: Studies in Technology and Industrial Policy*.

As both Singapore and Hong Kong are city states, a comparison with Ghana is not strictly applicable, but South Korea and Taiwan are more directly relevant. Thus viewed, Table 16 lists some selected industrial policy interventions that these two countries adopted in the early developmental phase. Both South Korea and Taiwan developed specific policies for achieving industrial progress with a clear focus on raising the local content of manufacture, targeting FDI (even with restrictions) and raising technological effort.

Thus, in the case of late comers such as Ghana the state will need to make some vital contributions including the following:

* Providing public goods;
* Correcting market imperfections;
* Providing an institutional environment in which markets can flourish (including the maintenance of macroeconomic stability);
* Strongly promoting the growth of local private enterprise;

* Exercising strict discipline over private firms (by penalising poor performers and rewarding good ones);
* Encouraging high levels of savings and investment;
* Achieving diversification of the economy and, in particular, by reducing dependence on primary produce and promoting rapid manufacturing growth;
* Guiding investment and technological advance in appropriate directions – to sectors with the most promising growth potential;
* Helping to improve competitiveness in product and factor markets;
* Regulating natural monopolies;
* Establishing good governance; and
* Promoting equity (by ensuring equitable distribution of income both (a) intra-temporarily, i.e. between people at a point of time, and (b) inter-temporarily, i.e. between generations).

10. Concluding Remarks

While appreciating the significant contribution of the liberalisation strategy in enabling Ghana to recover from the severe economic dislocation of the early 1980s, we have raised a number of concerns throughout this paper. At the risk of repetition, the significant 'worries' which remain include the following:

a) Ghana has often experienced fiscal deficits, including some severe ones in recent years, which raise issues of government capacity in fiscal management.

b) the rate of savings as a percentage of GDP has recovered from the very low levels of the mid-1980s but still is on the low side and has even declined somewhat in recent years;

c) the continued heavy dependence on primary produce exports, and the failure of the economy to diversify, is a matter of concern;

d) related to the above, the decline of the manufacturing sector needs to be seriously looked at, with necessary policy measures undertaken on a priority basis;

e) the local private enterprise sector's heavy involvement in economic activities needs to be actively promoted; and

f) the limitations of the statistical database are a handicap to the undertaking of measured analysis of economic and financial management and these demand priority attention.

It needs to be recognised that the economic development of a relatively low-income country such as Ghana will remain a demanding process which will need a committed role on the part of the government and, also, a very strong contribution by the private sector, especially with local private enterprise being heavily involved. Thus it needs to be appreciated that the principal issue is not one of a clear choice between opposites: i.e. liberalised operation of the market mechanism *versus* government intervention for improving resource allocation. Rather it is a question of determining how best government and the private sector can work together in a cooperative and complementary manner. It is sustained economic development and growth (and not a dogmatic ideology), which is of paramount importance.

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[1] There are a number of text books, including the following, which provide a succinct summary of the various relevant issues of economic development in developing countries: Clunies-Ross, et al. (2008), Thirlwall (2006) and Todaro and Smith (2006).

[2] See, for example, IMF and IDA (2002) for some details on Ghana's vulnerability and the preliminary decisions taken by the IMF in 1999 that Ghana could qualify for assistance under the HIPC Initiative.

[3] The IMF website (www.imf.org) is a source for a very large number of documents which delineate the development of the relationship between the Ghana Government and the IFIs – a remarkable degree of transparency which is accompanied by the reminder (by the IMF) that the documentation is the property of the Ghana Government (as is always the case for 'country studies' undertaken by the IFIs).