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Improved Economic Stability

by Hans-Joachim Karger, Legon

On 24th February, 1966, Nkrumah was overthrown by a coup d'état. From this time onwards, government power has been in the hands of the National Liberation Council (NLC), which was formed by military and police officers. The former chairman of this Council, Lt.-General Joseph A. Ankrah, tried successfully until 1969 to do away with the political legacies of Kwame Nkrumah¹. But along which lines did Ghana's economy develop during the last three years? In order to answer this question, it will obviously be necessary to sketch briefly the economic situation with which the NLC was confronted in February, 1966.

Soaring Government Expenditure

When the NLC took over, Ghana was already in the middle of an economic and financial crisis of almost unimaginable severity. During the years before the coup, public spending had increased at a fantastic rate. Placing the level of government spending for goods and services at 100 for 1950/51, this index had reached 1,035.2 by 1965. In 1965, the government had spent a total of New Cedi 361.0 mn whilst revenue amounted to only NC 284.0 mn, which left a deficit of NC 77.6 mn².

More than 98 p.c. of this gap was bridged by raising loans almost exclusively from the Bank of Ghana. Up to the end of 1965, internal indebtedness of the government had grown to a total of NC 407.1 mn, to which came foreign debts of NC 378.4 mn, making a total of NC 785.5 mn on 31 December, 1965.

Much of the rapidly growing public expenditure had gone for current spending. However, between 1957 and 1965, the government of Ghana had also invested in the country's economy a total of NC 1,685 mn on capital account. But large parts of

these investments had been made for strengthening Ghana's economic and social infrastructure, whilst the funds invested by the government in directly productive concerns did not lead to impressive growth.

Income Development

The GNP at current market prices, it is true, had grown from NC 946 mn in 1960 to NC 1,589 mn in 1965, which means an overall growth of 67 p.c. But calculated at constant prices, real growth totalled only 15.5 p.c., which was 1.25 p.c. more than the simultaneous increase of the population. In 1960, income per head of Ghana's population was about NC 141. After five years of increased government activity in the economic sphere, it had reached, at constant prices of 1960, only NC 142 by 1965, which means that entire growth had amounted to no more than NC 1.

During preceding years, the government had attempted to absorb the unsatisfied demand for goods by increased imports. In the beginning of 1965, when the Conference of the Organisation of African Unity met in Accra, it again, for reasons of prestige, threw open wide once more all import sluices. Yet by the end of the same year, it was forced to impose sterner import restrictions than ever. Moreover, foreign business partners of Ghanaese importers began to refuse deliveries of goods for which they had received import licences, because foreign confidence in the ability of the Bank of Ghana to pay for such deliveries had been destroyed. Hoarding was rife and made the situation worse. The combination of all these influences produced a severe decline in the supplies of goods, some of which were indispensable for the country. Money circulation continued to increase without intermission, and inflation which till then had been relatively mild became a runaway process: the cost-of-living index (March 1963 = 100) therefore soared from January, 1965, to February, 1966, from 128.1 to 172.3.

¹ On 2nd April, 1969, Lt.-General Ankrah was replaced by A. A. Afrifa. Ankrah himself had admitted to have accepted certain sums from foreign firms and to have passed them on to leading party politicians. His case is still being investigated.

² New Cedi 1 = US\$ 1.40 up to July 8, 1967; from July 9, 1967, NC 1 = US\$ 0.98.

Reduced imports adversely affected production through the lack of tools, machinery, spare parts, and raw materials. More and more production plants therefore had to reduce their output, some had to close down, and others were never able to start up manufacturing. Import restrictions hit the private manufacturers most severely, because public sector enterprises were given preference in the issue of import licences. Official favours shown to state-owned concerns were caused by the intentions of Nkrumah's regime to build socialism, which had also led to a steep increase of employment in government service and to a corresponding drop in private employment. The public-sector labour force of the Ghanaese economy thus expanded from 170,500 to 277,000 from 1959 to 1965, whilst private employment conversely contracted from 149,000 to 118,000 during the same period. Over-employment of superfluous labour (i.e. "hidden unemployment") was rife in almost all publicly-owned plants and concerns, and this was one of the reasons for their un-economic management and loss-making.

Ghana's Foreign Trade

Ghana's balance of visible trade, in 1965, developed a new record deficit of NC 93.2 mn—worth more than 40 p.c. of its total income from exports. The gap in the balance of payments of NC 158.9 mn was much higher and was also an all-time high as a deficit. In preceding years, Ghana had still been able to reduce the deficiencies on its international account by payments in foreign currencies. In 1957, when Ghana had become independent, the country had inherited foreign credit balances of altogether NC 400 mn, but by the end of 1965 these had dropped to NC 80 mn.

By the close of 1965, Ghana's foreign debts had reached NC 378.4 mn, of which NC 366.8 mn were described as long-term borrowings, but actually about 80 p.c. of this total consisted of medium-term advances made by Ghana's suppliers, used mainly for setting up feverishly new industrial projects. Repayment was supposed to be made from the income of these industries, but hardly any one of the plants ever succeeded in earning even a modest profit. Most of them operated at a considerable loss, and some were never able to start up production. In 1966, Ghana was supposed to redeem NC 56 mn of its foreign debts, and NC 67 mn in 1967. There was no doubt that the country would never be able to meet these pledges.

The NLC's Aims

One of the main reasons, if not the main cause, of Nkrumah's fall was Ghana's economic plight. Only a few days after the coup he had led, Ltd.-General Ankrah proclaimed that the revival and recovery of the Ghanaese economy was the main

aim of the NLC. He also listed the new government's economic objectives, as follows:

- ☐ Free competition between the four sectors of the Ghanaese economy: private sector, mixed private and government enterprise, public sector, and cooperatives;
- ☐ Reduction of public spending;
- ☐ The determined fight against inflation;
- ☐ The creation of new productive employment;
- ☐ Improvement of Ghana's foreign trade situation.

These tasks were to be tackled in three successive periods:

- ☐ Emergency Aid;
- ☐ Stabilisation;
- ☐ Development Work.

It was intended to complete emergency aid for the economy by 30th April, 1966. Up to this date, a number of ad hoc measures, designed to supply the impoverished population with essential goods and to protect the economy against complete collapse which then seemed imminent, were taken³. Nkrumah's government had published its budget for 1966 on 22nd February of that year, and this proclamation, without doubt, was a contributory cause of the officers' putsch. The budget had been planned for a deficit of NC 40 mn. In order to avoid a vacuum, the NLC decreed the continuance of this budget's operation up to June 30th, subject to considerable cuts in expenditure and other amendments. In order to lighten the budgetary burdens, in addition to avoiding further deterioration of the balance of payments, a number of development projects were stopped, because they evidently went beyond both the country's financial capacities and the limits of the national reservoir of labour suitable for staffing high and intermediate-level managerial positions. Purely administrative spending, too, was cut down.

The efforts undertaken by the NLC met with widespread good will among Western foreign governments. This response, resulting in additional aid, made for a considerable reduction of the immediate pressures weighing down Ghana, by mitigating the severe shortage of essential supplies. However, regular deliveries of supplies to the Ghanaese economy through imports of both consumption goods and the wherewithal of production could be secured only through fundamental changes in the parlous state of Ghana's foreign credit balances that had been exhausted, and by new agreements being made about redemption of the medium and short-term debts of the country.

This was why the NLC asked the International Monetary Fund to resume its deliberations on

³ Ghana's Seven-Year Plan, which had served as the basis for Nkrumah's regime attempting to develop Ghana's economy, was abrogated immediately and cancelled by the NLC.

Ghana's situation. After a thorough study of this, Ghana was made the concession to be permitted to draw, during the year following this decision, foreign currency to the equivalent of £13 mn, which enabled the new government to tide itself over the difficulties of its balance of payments for several months.

Restored Confidence from Abroad

As from June 1, 1966, the Bank of Ghana resumed punctual repayment of its current debts. This restored the confidence of foreign countries into Ghana's reliability, and foreign suppliers started delivering goods and services again. The economic policy of the Stabilisation Period was mainly geared to the recommendations of the World Bank and of the IMF. Adopting these recommendations meant for the new regime not only that it regained the confidence of these and other organisations and of the industrialised countries but that it could continue to count on their support.

The NLC's honest attempts to stem the flood of current expenditure by reorganising and cutting down the civil service and government machinery were deemed to failure, as it turned out. The government succeeded in sharply reducing public spending during the fiscal year of 1966/67 only by slashing development expenditure, as against 1965, by about 50 p.c. In 1966/67, it was possible thus to reduce the deficit in the public estimates, as against 1965, by NC 18 mn to NC 59.6 mn. Estimates for 1967/68 showed a higher deficit of NC 65.1 mn but this was still much smaller than the annual over-spending before the coup d'état.

How Deficits are being Financed

But the main and fundamental change was introduced through the way in which these deficits were financed: it was no longer the Bank of Ghana which had to advance unlimited sums as loans to the government, but Ghana's economy had now to make its contribution. This enabled the NLC to balance its budget without drawing inflationary credits from the banks.

Major cuts in the budget had clearly visible effects on local capital accumulation, which dropped successively from NC 271 mn in 1965 to NC 246 mn in 1966 and NC 225 mn in 1967. Development programmes were written down to completing such projects as seemed to guarantee immediate self-support, creating employment, at the same time, for as many men as possible. Therefore, capital formation would have been even smaller, had not, at the same time, private investment grown appreciably.

In 1966, the GNP expanded by NC 6 mn or by 0.6 p.c., which means that, in spite of the drastic

cuts in the government's spending, its growth rate was by only 0.1 p.c. lower than in 1965, expressed in real terms. Calculated at current prices, the GNP increased by NC 190 mn in 1966, which was NC 54 mn less than the increment registered in 1965, but calculated at constant 1960 prices, the drop was only NC 2 mn. This was one of the first results of the NLC's fight against inflation, which proved even more successful in 1967: from 1966 to 1967, the GNP, at current prices, declined from NC 1,779 mn to 1,769 mn, but it increased, calculated at constant 1960 prices, by NC 26 mn, or at a real growth rate of 2.4 p.c.

On the other hand, since Ghana's population figures are rising much faster, the country's income per head had dropped in 1966 by NC 3 to NC 138. It is believed, however, that the income per head has increased in 1968.

Better Use of Production Capacities

GNP growth was due almost wholly to utilisation, or better utilisation, of capacities created during past years. This was the effect of more ample raw material, fuel, and intermediate product supplies, and of spare part deliveries, mainly to private industry, but also to new and more capable managers being appointed to run the state-owned concerns.

Gross output of Ghana's industries, calculated at constant 1962 prices, rose from NC 95.4 mn to NC 139.5 mn during three years. Rising local production of goods for individual consumption and the reduction of taxes and import duties led to a fall in the cost-of-living index (March 1963 = 100) from a maximum of 184.9, which it had reached in June, 1966, to 161.9 already in December of the same year. In spite of the Cedi's devaluation, which in July 1967 led to unavoidable rises in the cost of imported goods, the government succeeded in pushing down this index to 157.1 at the end of 1967 by further cuts in taxes and duties. To some extent, stricter price controls also contributed to this result. However, in January, 1968, the index had again returned to 174.0.

Shortly after its successful revolution, the new government started to dismiss redundant and unproductive labour from the public sector. Further labour was released through the stoppage of work at dubious and not immediately profitable projects. A Commissioner for the Redeployment of Labour was appointed, projects which had a high „labour content“ were started up, and thus the NLC attempted to master the situation, which was also fraught with social hardship problems (which, in their turn, led to increased delinquency among the unemployed), and to transfer the redundant workers to productive employment.

Almost immediately after the coup, permitted imports were sharply slashed and restricted to essential goods and those needed for the country's economic development. This resulted in a reduction of the import bill from NC 320.1 mn in 1965 to NC 250.6 mn in 1966. Almost all classes of imported goods except foodstuffs and materials for assisting farming, which both serve, directly or indirectly, the improvement of essential consumer goods supplies, were affected by the cuts.

But exports, too, dropped steeply from the level reached in 1965, by NC 34.6 mn or 15.5 p.c., to NC 191.4 mn⁴. As the import bill went down more abruptly than the income from exports, the adverse balance of trade shrank from NC 93.2 mn to NC 59.2 mn. This means that the situation was appreciably less desperate than in 1965, but combined with other adverse balances, this still led to an enormous deficit in international payments account of NC 92.8 mn—though this was by more than 40 p.c. lower than in 1965.

The foreign trade situation, as it seemed, could therefore be radically improved only by a ruthless devaluation of the Cedi. With the introduction of the NLC's second budget estimates on 8th July, 1967, the government, coining the slogan of a "New Deal for Ghana Economy" decreed a 30 p.c. devaluation of the Cedi⁵. This decisive measure was coupled with big cuts in the export duty, and in some cases its abolition, designed to strengthen Ghana's competitiveness considerably and to increase its exports.

Success of Devaluation

Exports actually rose already during 1967 to NC 245.1 mn, from NC 191.4 mn in 1966, but this was not due to a higher export volume. The rise was almost exclusively caused by the increase in (nominal) world market prices for Ghana's products, because of local devaluation. In addition, devaluation also caused the substitution of a number of local goods which had now become relatively cheaper for products hitherto imported. The total import bill, it is true, rose in 1967 by NC 10.9 mn to NC 261.5 mn, but this was due only to the rise in prices of foreign goods through local devaluation.

The value of Ghana's import spending rose by a conspicuously slower pace than its exports, and this narrowed down the gap between imports and exports in the balance of trade of 1967 further to NC 16.4 mn. An enormous expansion of Ghana's exports then was the re-

sult of 1968's trading: the rise reached about 40 p.c. to NC 341.4 mn. True, imports also expanded again considerably, but for the first time in ten years, Ghana showed a surplus on visible trade account, which according to provisional returns reached NC 29.1 mn. Adverse balances on other accounts still left Ghana's balance of payments in the red to the tune of NC 88.3 mn in 1967 and of NC 57.0 mn in 1968. These were reductions against the previous years by NC 4.5 mn and 31.3 mn, respectively.

Consolidation of Foreign Debts

Another pressing problem which had to be overcome were short and medium-term credits having become and falling due. Already in June and December of 1966, the first conferences between Ghana and its creditors were held in London under IMF sponsorship. They laid the foundations for further bilateral talks and created a framework for drawing up conditions of debt consolidation vis-à-vis the various creditor countries designed not to strain Ghana's financial strength too much. In the outcome, it was possible to conclude agreements with almost all the creditor countries within one year after the 1966 conferences, leading to lengthy postponements of the dates when repayments fall due, so that Ghana was given ample scope for curing its economy. Redemption pledges which had originally amounted to about NC 100 mn annually were cut down around NC 20 mn.

In August, 1966, Ghana began to make payments by instalments on the big sums whose redemption had been outstanding from the end of May, 1966, according to a scheme which had been drawn up in order to deal as fairly and squarely as possible with all the parties involved. The honest endeavours of the new government to keep its pledges secured for Ghana further support by the IMF and the World Bank, consisting not only of technical assistance but also of further credits made available by the two institutes. Some industrialised countries have also agreed to help Ghana through capital aid, thus easing the burdens on its budget and balance of payments even further.

In spite of additional credits received, Ghana's foreign indebtedness would have contracted slightly to NC 368.6 mn in 1966, had not the Cedi been devalued. Through this step, however, the nominal total of Ghana's foreign debts rose to NC 492.7 mn up to the end of June, 1968.

The Period of Stabilisation came to an end in June, 1968. By that time, Ankrah's government had succeeded in reaching most of the aims it had set itself. The government had managed to consolidate Ghana's ruined economy and to lay the foundations for renewed economic growth. In July, 1968, a new two-year plan came into force.

⁴ Almost all export products showed lower sales but the main cause of the decline was the reduced volume of cocoa exports, caused by a poorer harvest.

⁵ It is frequently argued that the rate of devaluation was too low, as the Cedi had been bought and sold, before devaluation, in the free market, at a discount of about 45 p.c. against hard foreign currencies. As a matter of fact, there is still black-market dealing in the Ghanaian currency now.