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CENTER DISCUSSION PAPER NO. 49

THE POLITICAL ECONOMY OF THE GOLD COAST AND GHANA

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## THE POLITICAL ECONOMY OF THE GOLD COAST AND GHANA

### Prologue

No, we do not want to catch up with anyone. What we want to do is to go forward all the time, night and day, in the company of Man and in the company of all men. The caravan should not be stretched out, for in that case each line will hardly see those who precede it; and men who no longer recognize each other meet less and less together, and talk to each other less and less. (Fanon)

This essay is a study of the long and painful process of development of an African economy. Ghana's pattern of economic growth in this century is not very different from that of many other underdeveloped countries in Africa: the country experienced a period of rapid growth from 1900 to 1925, followed by a period of stagnation from 1925 to 1945, and another period of expansion and development following the Second World War.

Cocoa, and to a lesser extent gold, was the main basis for the economic revolution which in the first decades of this century transformed Ghana from a subsistence economy to a colonial export economy. A fall in ocean transport costs following the application of steam to ocean shipping at the end of the 19th century drastically shortened the distance between Ghana and the developed world; while rising income in Europe and America, and a growing taste for chocolate as an item of mass consumption provided the market for Ghana's cocoa, and the engine for its economic growth. Ghana, a remote agricultural country, became part of a system of international division of labor whose center was Great Britain.

The beginnings of the growth process in Ghana lie somewhere in the 1880's and 1890's; however, in the early years farmers used the output of cocoa as seed to plant more cocoa, and the major impact of the increased

production on foreign trade was felt only after 1900. Except for the war years, the period between 1900-1920 was one of very rapid growth - an annual average of perhaps 10% per year. This was the "opening up" period of the colonial regime and it lasted until the 1920's. In the mid-twenties, the rate of growth slowed down substantially, and for the next twenty-five years the economy stagnated and even declined because of the breakdown of international economy during the depression and the war.

After the Second World War, an extraordinary boom in cocoa prices in the early 1950's brought the country unprecedented prosperity and provided capital and foreign exchange for a large program of government expenditure designed to provide a basis for modernization and development. It led to Ghana's "decade of development," 1955 to 1965, under Nkrumah. At first, this development program was carried out on traditional lines, but with time an increasingly radical break with the past was attempted. In some ways this massive effort at development was a second revolution in the sense that it tried to change the laws of development of the country. However, it is too early to determine what the lasting effects of this period were; it set into motion forces that are still being played out, and it remains a subject of great concern and controversy.

This essay is cast in the form of a dialogue between the government and the private sector. These are two reasons to justify the emphasis on the government. First, the government controls many of the instrumental variables which determine the structure and rate of growth of the economy. Second, the government has often been a conservative force, resisting adaptation and holding the economy back.

The government creates the environment of the country by affecting the degree of economic integration. It uses its policy instruments to raise and lower barriers to exchange between the sectors of the economy; in so doing it redirects economic flows, thereby creating and destroying trade. The government plans, constructs and operates the basic transportation and communications system; the grid it lays down determines the structure of costs and prices, the degree of mobility of goods and factors, and the extent of specialization and trade. Government policy on tariffs and exchange controls determines the linkages of the country with the international economy. Its tax policy, its laws, and its control of the financial system channel flows of capital and enterprise; and its expenditure on health, education, and housing make labour more or less productive and mobile. How the government uses its instruments, and the degree to which it perceives and takes advantage of opportunities for growth and increased division of labour are therefore critical in determining the evolution of the economy.

The record of government in Ghana is not a very good one. Its policies have often been misguided and ineffective and it has exhibited a surprising degree of inflexibility and rigidity. It adopted certain broad courses of action and then failed to adapt to changing circumstances. Its inability to correctly interpret signals emanating from its environment and to frame appropriate responses have greatly hampered the ability of the Ghanaian economy to remain alive and grow through the exigencies of the world economy.

A feedback relationship exists between the government sector and the private sector: the mistakes of the government quickly reflect back on its

ability to finance itself and survive. This interrelationship has been a critical factor in the dynamics of the Ghanaian economy. In Ghana the government finances its expenditure through taxes on imports and exports, and therefore the amount of revenue available to the government depends on the rate at which foreign trade grows. When government expenditure fails to stimulate growth in the value of exports, its revenue ceases to grow and its expansion must come to a halt. This is a recurrent theme in Ghanaian economic history. In addition the government sector requires certain inputs from the private sector for its effective functioning and it cannot expand if they are not forthcoming. In several instances the government in Ghana has not been able to expand as fast as it wished because there was a shortage of skilled labor and imported materials, or because wages rose due to inadequacies in food production, transportation, and distribution. These shortages, in turn, can be traced to the failures of the government in expanding human capital formation and infrastructure sufficiently and effectively.

The approach of this essay is historical. History hangs heavy on Ghana and to see its present problems requires a long look backwards. For most of the twentieth century, Ghana was a colony of Great Britain and its laws of economic motion were derived from abroad. Ghana received capital, technology, and markets because of her close linkages to Great Britain. The country also inherited specific political and legal institutions and a particular political economy. We cannot understand Ghana's predicament without studying the ways in which British colonial administration attempted to promote development and improve welfare, the instruments they had available to them, and the ends they pursued. The nature of yesterday's rulers

determines the nature of today's problems.

The British colonial administrators came to the Gold Coast with their own special set of ideas and tools for dealing with the colony's economic problems. Their principles of political economy, deeply rooted in English classical economics and English economic problems, played a strategic role in determining the course of development the Gold Coast would take. The British did not initiate growth in the Gold Coast, nor were they the driving force of development, but they greatly shaped its impact; and their ideas, both when they were right and when they were wrong, have continued to guide policy makers to the present day.

## Part 1: The Gold Coast

### I

The British had been active in the Gold Coast to some extent from 1600, but the idea of exerting direct control through the British colonial apparatus took hold only late in the 19th century. Before the 1870's the British government used its mercantile power to foster British traders, but it tried to avoid direct administrative responsibility for the Gold Coast and the entanglements of colonial rule.

At the beginning of the nineteenth century the British had only a precarious base on the coast, which they shared with several other European countries. Inland, the Ashanti governed an economic and political empire which, at its peak, covered an area larger than that of Ghana today. This empire had as its economic base a northern trade with other African nations, including a long distance trade with North Africa across the Sahara, and southern trade with Europe by sea. The British sent envoys inland to try to negotiate a commercial treaty with Ashanti early in the century, and in 1820 had (for about a year) a resident consul in Kumasi, the Ashanti capital. These efforts did not succeed and relations between the British and Ashanti during the nineteenth century were tenuous.

However, the British remained on the Coast, policy vacillated between greater involvement and complete withdrawal, and there was a gradual increase in the "string of settlements on the seashore." As the British economy grew following the Industrial Revolution, it became the predominant coastal power, and one by one bought out other countries which had established themselves there.



The British did not control land outside their forts, but they formed alliances with coastal African nations and helped them to assert greater independence vis-a-vis Ashanti. This caused continual friction with Ashanti and resulted in a series of wars.

In 1852, Disraeli declared that "the colonies are millstones round our neck"; and in 1865, the House of Commons, in a resolution which surely ranks as one of the worst predictions in the history of the empire, declared the end to British expansion in West Africa, and foresaw ultimate withdrawal. A few years later, around 1870, economic interest in West Africa began to grow rapidly as all of Europe looked outward toward the third world. The British increased control in the sections of the country they administered (the southern part of what is now Ghana was established as the Gold Coast Colony in 1874), and reversed the policy of African advancement by substituting English officials for local authorities. Conflict with Ashanti increased, and in a final show-down the British defeated it through military conquest. In 1901, Kumasi was captured and nearly all of present-day Ghana became part of the British empire.

Once direct responsibility was established, the colonial administrators were faced with the problem of administering and, in some sense, developing the newly-acquired colony. They did not view development with the sense of urgency we now have, but they saw the Gold Coast as an underdeveloped country, ("The soil is everywhere fertile and the needs of the people being few, there is little incentive to work.") and had a plan for bringing about "improved methods and new manners."

British strategy was outward-looking with regard to capital, enterprising, and markets. In their view, Africa had a plentiful (though not always

willing) supply of labour, and rich natural resources which could find a ready market in the developed world. Capital and enterprise were all that was lacking, and the task of the government was to make it possible to acquire these from abroad. The colonies were regarded "as being in the condition of undeveloped estates and estates which can never be developed without imperial assistance." The Gold Coast and Great Britain were complementary; the role of the state was to break down barriers to exchange between the colony and the home government by providing basic services and a favorable climate for foreign investment. This approach led the British to overstress foreign markets and foreign capital, and to neglect internal markets and indigenous enterprise. Instead of protecting local business, they brought about free trade and provided a helping hand to foreign enterprises.

Within this framework, British policy was effectively laissez-faire in the sense that the role of the state was severely limited with regard to both goals and instruments. The state acted as a catalyst by providing infrastructure and services, but relied mainly on private initiative to advance economic development.

Fiscal and monetary policies were very restricted. In the British system each colony had to pay its way (the surest evidence of the soundness of measures for the improvement of an uncivilized people was that they should be self-supporting). The colonial government had to balance its budget unless it could borrow abroad on commercial principles: i.e., it had to satisfy private lenders of the soundness of the loan and its ability to repay it. The Gold Coast could, and did borrow in London from time to

time; but in fact, through most of its history its long-term borrowing fell short of its international reserves, and it was a net creditor of the Commonwealth. The government had little scope for capital formation with long gestation periods or uncertain returns: returns had to be quick in order to service the debt.

Monetary policy in the colonies was extremely conservative. The stock of money held by the private sector for transaction purposes and as a store of wealth increased steadily as the economy became commercialized. However, the government did not have the right to issue currency, and therefore, it could not use private savings in monetary assets to finance a deficit. The functions of a central bank were the responsibility of the West African Currency Board, whose policy it was to keep reserves amounting at times to over 100 percent of the money supply invested in London.

Even if the colonial service had wanted to do more to promote development it was politically constrained from any dramatic action. It was an alien government without a political base in the colony, and therefore, with no political power. It could rule only if matters proceeded smoothly and no disturbing elements were introduced into the existing political scene. The colonial service was actually not a government at all, but a committee to manage the affairs of the colony. Consequently, it was never able to mobilize widespread support for large scale efforts toward development.

In addition, personnel was often in short supply: the British contribution of "orderly" administration to the colony was accomplished with only a few hundred persons. The number of Englishmen wishing to serve in the colonies was limited, and Africans were barred from the service for practical reasons because of the adoption by the British of a unified colonial service

system. Because of the inflexibility of the system, the government, even when funds were available in periods of great prosperity, could not expand personnel rapidly enough to carry out elaborate programs.

This introduced an element of paternalism and anti-commercialism into the colonies in contradiction to the laissez-faire ideology of the Imperial System. Colonial officers were not drawn from the most dynamic and able sectors of the British economy. Many were displaced landed gentry who had resisted economic change in Great Britain, and tended to carry abroad with them their opposition to radical innovation. There was also a tendency toward sluggishness in the colonial services which was reinforced by the colonial office's bureaucratic traditions of over-reliance on written reports and adherence to precedent, both of which precluded strong or determined policies. In addition, cultural obstacles hindered the effectiveness of the European colonial officers. Acutely conscious of their position as trespassers, they were often cautious and afraid, while racial prejudices often hampered their ability to understand the problems of the colony. The officers in the colonial service were not dealing with farmers, traders, or lawyers, but with the African, the native, the local inhabitant. This cultural gap magnified the political and bureaucratic problems involved in carrying out development tasks efficiently or effectively.

Thus, there was a conflict between the abstract goals of the empire and the realities of colonial administration; the anti-commercialism of colonial officials in the Gold Coast was often at cross purposes with the trade-creating goals of the British imperial system. The empire commanded men to specialize but the colonial administration, grounded in the feudal virtues of self-reliance

and self-sufficiency acted as a brake on specialization and integration into the world economy. The colonial government was not a dynamic force. The chief concern of colonial administrators was to show the home government that they were paying their own way, and to convince local merchants and indigenous leaders that they did not interfere in local affairs. This system could work only if Adam Smith were correct in assuming that "little else is required to carry a state to the highest degree of opulence from the lowest state of barbarianism, but peace, easy taxes, and a tolerable administration of justice."

## II

1900 - 1920

The first development "plan" for the Gold Coast was put into effect around 1900. It was not a plan in the modern sense of the word, but a government program designed much as are the plans of today. Its strategy was to develop the country by following the three R's: Rule of the British, Railways, and Ross's medical achievements. The program was short and modest and, on the surface at least, highly successful. The main thrust of the plan lay in the construction of a railway and in the pacification of the country. The government did not have sufficient revenue at the time to finance the entire program, but made up the deficit by issuing bonds in the London capital market. The construction of a railway began in 1898 and it reached Kumasi in 1903. The Ashanti were pacified in 1901; a beginning was made toward enlarging the administrative structure; and in 1904 the public debt stood at over two million pounds.

Exports rose rapidly in the two decades that followed and the rest of the economy expanded with the rise in exports. Government revenue rose pari passu; the government could easily pay interest and amortization on its debt and still have a large surplus at its disposal for the steady and continuous expansion of government services and infra-structure. Revenue at times rose faster than the government's capacity to spend and, at one point, taxes were reduced because of excess revenue.

Government performance between 1900 and 1920 was a model of colonial financial strategy. The government was satisfied with the country's remarkable progress and prosperity, and pleased that

...the general increase in wealth are being followed, not merely by better living and better houses but also by an increased intelligence and enlightenment as well as by an excess of industry and thrift.

The government was particularly pleased with the success in Ashanti, the major focus of interest, and welcomed the prosperity in that area on political as well as on economic grounds. It gave the "Ashanti greater opportunity of spending money and a corresponding increase in their desire to earn it," and in the government's view, if the Ashanti could be encouraged to invest his money in commerce and farming, the government could "fully rely upon his common sense not to risk his possessions in the future by fruitless quarrels with either the government or his fellows."

Kumasi grew rapidly during this period. Former residents returned to the city, and new migrants settled there. Trade expanded and leading commercial firms established branches in the city. Buildings sprang up, which were "erected and owned by leading Ashanti chiefs and leased to mercantile firms", and the administration applauded this "commendable enterprise in building operations". Kumasi became again a distribution center for the whole of Ashanti and the hinterland. Old trading links were revived and new ones created as rubber, cocoa, and the railroad provided a basis for the city's growth. In 1908, the colonial administration could claim with satisfaction: "With a plentiful food supply, high prices for his produce and high wages for his labour, the Ashanti is commencing to appreciate the values of peace and political security."

The satisfaction the government took in the prosperity of the Gold Coast was by no means entirely justified; it is not clear that the government's contribution to the growth process was an essential, or even an important, factor. Many of the government's policies were misguided and perhaps counter-productive. The government emphasized foreign investment in the gold industry, which was dominated by Europeans, in its development strategy; but it was African enterprise in cocoa which accounted for the prosperity of the colony, and it received little help, and a certain amount of hindrance from the government. It could be said that, in a sense, the cocoa industry grew in spite of, rather than because of, government policies.



(2) The Gold Industry

The country had a long history as a gold producer; travelers and soldiers visiting Ashanti had long before brought back visions of fabulous wealth. The gold mines had been in operation since at least the early 16th century, but indigenous methods had reached an impasse because of their ineffectiveness in working deep mines and modern machinery was necessary for further development. This is a classic example of the colonial view: here was a rich raw material, much in demand in world markets, lacking the entrepreneurship and capital that only Europeans could bring.

Government aid was essential in getting the gold industry on its feet. Even though some rich gold mines were located relatively near the coast, it was exceedingly difficult and costly to transport machinery by means of headloading. It was the absence of a railroad that caused the efforts by Europeans to establish a gold mining industry in the later 1870's and early 1880's to fail. The European industry became successful only after the completion of the railroad in 1903. Pedler has called the gold mines "The Father of the Railways", because the decision to build in the West in 1898 was no doubt in large part due to the fact that the gold mines were located in this region.

The government of the Gold Coast helped the gold industry somewhat in obtaining adequate supplies of labour but not to the extent that was usual in colonial Africa. Most colonial governments did not believe in laissez-faire where labour was concerned. Instead, they regarded it an essential government function to interfere in the labour market to assure an adequate labour supply for the export sector of the economy. The economic rationale

for this policy was the theory of the backward-bending supply curve of labour. It was argued that because of the economic backwardness and limited horizons of the indigenous population, the supply curve was highly inelastic and probably negatively, rather than positively, sloped (at least in the short run until new tastes were acquired). An outward shift of demand for labour brought about by an inflow of foreign capital would, it was felt, cause a rise in wages, but a decline in the amount of labour supplied. To overcome this problem, a policy was advocated that would hold wages down to "reasonable" levels and shift the supply curve outward. In many parts of Africa poll taxes, land appropriation, and other coercive measures were used to force the indigenous population to leave the traditional sectors and work in the new European sectors of the economy. In some cases it was even considered necessary to import labour from India and China to make up for the labour deficit in Africa.

The colonial government of the Gold Coast began with the usual view (the country suffers from a dearth of labour to which the character of the inhabitants largely contributes), but it did not in fact take the strong measures of other colonial governments, and in this respect the Gold Coast policy constituted a deviation from the norm of colonial political economy.

At the turn of the century the demands of the mining industry, railway construction, and the cocoa industry caused a shortage of labour. The Transport Department was established with the goal of alleviating the shortage. In his first report, the head of the department described his functions as follows:

The object of the department in its original conception was to obtain control of the labour market so as to keep down the rate of wages, and for this reason the department has not failed in its object. This has not, however, been accomplished without great difficulty, and at one moment I feared could not be successfully carried through, the chief obstacle having been the indiscriminate way in which mining agents have raised wages.

This effort, however, was shortlived, and the Transport Department was disbanded by 1909.

The government, at one time, considered importing Asian labourers to the Gold Coast, but only a small number were brought in. The government also helped the gold industry in its inland recruiting ventures by arranging meetings between recruiters and chiefs, but gave little more than its good offices. Although the gold miners desired greater support from the government, colonial administrators refused to use the powers of coercion and compulsion at their disposal in order to increase the labour supply. The government described its policy in the 1937 handbook by saying that it

...declines to exert any form of compulsion whatever in recruiting; its officers assist recruiting agents by every means in their power, going so far as greatly to increase their own work in doing so. Finally, it has placed a strict limit on the number of men it employs in railway and harbour construction...

The government did not impose poll taxes, nor did it permit contract labour; to some extent it defended labour from gross abuse.

The reason the government did not do more to help foreign enterprise was that it had only limited political control of the colony, and therefore did not have the power to control the labour market. The administration of

the Gold Coast colony was not ambitious, and had a dual attitude toward foreign capital: it welcomed and encouraged foreign capital, but resented the difficulties it created for smooth administration in the colony. In the 19th century, government attempts to institute a poll tax had met with stiff resistance, and the government did not wish to raise the issue again unless it was forced to. The colony was prospering because of the rapid expansion of cocoa and the labour problems of the African sector of the economy were outside of the government's horizons. The colonial administration was relieved of pressure to act on labour problems.

The returns to the colony from the support of the gold industry were quite small. Gold production expanded rapidly for only a short while, and in the 1920's the industry declined. The "returned value" of the gold industry to the country was small because the share of wages and taxes was low, while the share of imports of raw materials and equipment were high, as were profits remitted from abroad. The gold industry had few linkages with the rest of the economy and spill-over to other sectors was short. On balance the gold industry may even have been a net loss to the country because it continuously absorbed a disproportionate share of government attention, and may have diverted resources which could have been used more productively elsewhere.

One of the most important aspects of the colonial government's gold policy is exceedingly difficult to evaluate; namely, the effect of colonization on the terms and conditions on which capital and technology were inducted into the Gold Coast. It is not possible to analyze what might have happened had there been no colonization, but three points should be noted:

(1) The best gold fields had been discovered and worked by Africans. Europeans played but a small role in the discovery of the gold mines, which were originally brought to their attention by African middlemen, who knew the potential of the mines and recognized the need for modernization of production.

(2) Europeans had acquired mineral rights very cheaply since they negotiated directly with local chiefs whose bargaining power was weak. This would not have been possible had the Ashanti empire remained intact. The empire had so closely guarded its source of wealth that no European or foreigner had been allowed to see a gold mine, and the gold industry was dominated by a small ruling elite who appropriated its surplus.

(3) Uninhibited free enterprise was extraordinarily inefficient in raising capital for the gold mining industry. The mad scramble for gold concessions in the Jungle Boom, between 1898 and 1901, was not stimulated by careful, rational evaluation; rather it was characterized by psychological reactions bordering on hysteria. Consequently, the rush for gold was wasteful in the extreme; although the burden, in the beginning at least, fell mainly on the British and not on Ghana. Frankel gives an excellent graphic description of the period.

The potentialities of the field were introduced to Europe in the usual fashion, that is, by an exaggerated, quite unwarranted, and soon exploded boom in the shares of innumerable companies whose prospectuses portrayed a new Witwatersrand... It has been estimated that 321 companies were registered up to June 1901, with a total nominal capital of over 25 millions, of which possibly 15 millions was issued... There is no clear indication of the exact purpose for which, or the exact geographical area in which these companies were intended to, or did in fact, operate. There is no doubt that much of the issued capital was never

spent anywhere near West Africa in general or the Gold Coast in particular. In fact, notwithstanding the repeated West African mining booms and the considerable speculation in the shares of these companies, it is highly significant that in 1904 there were only some 13 companies which could report any gold production at all, and of these 13, there were only 4 who returned an output worth more than 10,000 pounds.

(b) The Cocoa Industry

Cocoa, not gold, was the pôle de croissance of the Gold Coast economy. The industry was developed by African capital, African enterprise, and African technology, with little help from the colonial government. The cocoa industry had begun on its own to a considerable extent before 1900, and was well-developed by 1910. Only when the industry was past the "take-off" point did the government begin to pay attention to the industry and plough back some of its earning into it. The contribution of cocoa to the government, in the form of expanded trade and increased revenue, was completely out of proportion to the contribution of the government to the industry.

Because the government did not foresee the potential of the cocoa sector of the economy, the transportation system it developed in the early years of colonization was of little help to the industry. The railroad was located in the West, while the cocoa industry was developed in the East. Only after the eastern link was established in 1912 (the construction of the Accra line was begun in 1909) was a major share of cocoa exports transported by rail. Even after the railroads were completed, the major part of the journey from the farm to the port took place by means of a costly headloading system, on paths and roads built with little government help or knowledge.

As the development of cocoa proceeded, the colonial officers, especially those connected with agriculture, tended to deplore the tendencies to "over-extension", "imprudence", and the "neglect of other crops" instead of applauding the rapid growth of the industry. Reports from various parts of the Gold Coast and the Agriculture Department continually complain about the small farmer who does not "fully realize his responsibility", who only "dimly understands the measures he has been advised to adopt", who is "more concerned with the money to be made out of his farm than the quality of his produce". The reports repeatedly describe the "dangerous tendencies", "wanton neglect", and "dilatory habits" of the African cocoa farmer.

The Agriculture Department of the Gold Coast Colony was particularly concerned with three facets of the cocoa industry: the choice of production techniques, quality control, and over-specialization. We may deal with each in turn.

African farmers modified traditional methods of agriculture to suit the growing of cocoa. To save on labour, they avoided extensive weeding, cleaning, or care of land. It was common practice to grow several crops on a given plot of land, partly to maintain the fertility of the soil and partly to provide needed cover crops to protect cocoa from sunlight. Both of these practices led to an "unkempt" appearance of the farms in the eyes of the Europeans. To the agricultural officers of the colonial service, the results seemed shocking; they thought that far less time should be devoted to bringing more land under cultivation and far more to tending existing farms. The agricultural officers were particularly distraught by what they thought was a lack of proper disease control. It was the practice of African

to allow a diseased farm to lie fallow rather than make an attempt to cure it. This practice worked quite well since farms usually recovered by themselves, but the government felt it was not in accord with "sound" agricultural principles.

To remedy the alleged deficiencies, the Agriculture Department wanted to be empowered to forbid planting when farms were not kept up to its set standards. In addition, the Agriculture Department attempted to introduce European plantations to the Gold Coast in order to demonstrate the proper use of soils. It also established "model" farms in various parts of the colony, but in general they failed to arouse interest among African farmers, and were indifferently kept. The government was quite mistaken in its view of what constituted appropriate technique for planting in the Gold Coast; to this day no method economically superior to that developed indigenously has been found. The European plantations, with agricultural methods unsuited to the conditions found in the Gold Coast, found themselves unable to compete with local producers.

The main point, however, is not that the colonial administration was wrong on the specifics of the technological requirements in agriculture, but that it had a serious misconception of agricultural problems in a tropical context. Colonial officers misjudged African ability in general, and automatically assumed that African techniques were inferior to the techniques of Europeans. Because it was felt that technology was easily transferrable from abroad, little research was done on local problems, and emphasis was placed on disseminating known techniques imported from abroad without testing their applicability to local conditions.



The question of quality and the fear of over-specialization both illustrate the anti-commercialism of the agricultural officers. In both cases the African farmer was blamed for being too commercial, i.e., for following too closely the dictates of the market. With regard to quality, the Agriculture Department of the Gold Coast colonial government held views opposed to those of both the farmers and the merchants. The Department wanted the farmers to use better methods of processing the cocoa product in order to improve the quality and purity of the export crop. They also wanted the merchants to help them bring this about by paying higher premiums for higher-quality cocoa, thus providing an economic incentive to the farmer. The difficulty was that merchants were satisfied with existing quality and refused to pay premiums for the quality differentials as established by the Department. Since neither the farmers nor the merchants complied adequately with the Department's wishes, the Department sought - and to some extent achieved - ordinances to enforce its point of view.

The third area of concern was over-specialization. The Agriculture Department felt that cocoa farmers neglected food crops and other export possibilities; to the colonial administration over-specialization implied long-run dangers. The fear of being a single crop economy rested, in part, on the belief that cocoa expansion would create domestic food shortages. This fear was largely unfounded: food growing is complementary to cocoa production, as certain food crops which serve as cover are a by-product of cocoa planting, while others require labour in the seasons when cocoa does not.

The argument for diversification also rested on the fear of over-specialization in export crops. The premises advanced were sound: the demand

for cocoa could be expected to level off, or at best grow slowly, and cocoa prices were highly unstable. The conclusion that the Gold Coast should diversify into other export crops did not necessarily follow from these premises, however. Individual primary-product price changes are often similar during major cyclical swings, and the demand growth and price trend for cocoa have been at least as satisfactory as for the typical tropical agricultural product over the period 1900-1965. In this context, the case for diversification is no clearer in retrospect than it was in the 1920's when demand increased and prices fluctuated erratically.

The attempt at diversification would have been justified had new major cash crops been found. However, when the Agriculture Department made what it thought to be a considerable effort to stimulate other crops and to attract European plantations, it had little success. More money was to be made in cocoa, and African farmers naturally devoted more attention to this crop than to any other; it was idle to expect them to switch to crops which were less profitable. Returns to both labour and capital for other crops were simply not commensurate with those available in cocoa.

An argument for diversification could still be made on the grounds of uncertainty and instability. The solution to these problems that is most compatible with growth is an insurance scheme which encourages specialization by protecting the specialized sub-components of the economy against the risk of price declines. One such device is the federal budget, which redistributes income in the economy in such a way as to make sure that no sector suffers too greatly from participating in a wider system of division of labour. To achieve this type of harmonization, political cooperation among the specialized units is necessary, and it was precisely this that

the British had at their disposal on an Imperial basis. The British could have coordinated production of individual colonies on a global basis; they could have used their political power to achieve diversification on an Imperial scale while assuring security for each participant. Ironically, the main potential advantage of the British Imperial Trading System was never utilized. The empire remained decentralized, and each colony was responsible mainly for itself. Colonial administrators encouraged diversification within each colony, and the home government did not make any attempt to achieve specialization to obtain comparative advantage and diversification in the empire as a whole. In the Gold Coast the government attempted to curtail the production of cocoa, and encouraged the production of rubber in its place; in Malaya, whose most profitable product is rubber, the British administration attempted to expand the production of cocoa.

In summary, we may conclude that although the colonial government did little to help the African farmer, it did little harm to indigenous industry because the recommendations of the Agriculture Department were largely ignored. Had the Department's views prevailed, the growth of the Gold Coast might have been seriously curtailed.

### III

1920 - 1945

The Guggisberg Ten Year Development Plan (1920-1930) was in many ways the finest hour of British colonial administration in the Gold Coast. It was large, bold, and based on a well articulated theory of development. The colony had just experienced twenty years of extraordinary growth, and the year 1920 saw an unprecedented boom which wiped out the depression suffered by the colonies during the latter part of World War I. The economic revolution during the previous twenty or thirty years was thought to be only the beginning. The country was prosperous and the government, due to its large revenues, was financially sound with a good credit rating in London. The problem as Guggisberg saw it was to use the first stage of development to build a strong foundation for future growth.

His economic principles were as follows:

(a) Long-run economic growth and development of the colony would require a large expenditure by the government in health, in education, and other forms of what we call human capital formation, and he considered civilization.

(b) The government's resources, though substantial at the time, were nonetheless limited compared to the needs of the country and the first priority was to raise revenue.

(c) The bulk of the plan would therefore be devoted to improving infrastructure in order to increase exports and thus government revenue and overall prosperity.

(d) To prepare for the time when more ample resources would be available, a beginning was made on a new program of education and health. Major

efforts were postponed until the second stage of the plan when it was hoped that increased revenue would be available. Guggisberg stated these principles succinctly:

For Progress we must have Education; for Education of the right type we must have a bigger revenue. To get bigger revenue we must have a bigger trade, and to get a bigger trade we must have more agriculture and far better systems of transportation than at present exist.

The basic data for the period 1920-1945 are shown in Figure 2. There is a large increase in government expenditure and public debt, a large expansion of infrastructure (miles of railroad, roads, the opening up of new ports, etc.), and an expansion in school involvement and health facilities.

Figure 2 also shows where the plan failed. Guggisberg's great leap forward was followed by the retrenchment of the great depression and the war. Exports failed to rise and indeed fell in real value due to falling prices in the 30's and rising import prices in the 40's. The plan itself was never fulfilled completely due to a lack of revenue. In the 30's there was a retrenchment of current expenditures as well, and during the war imports fell to an unprecedented low.

There is a certain irony in this sequence. The plan was conceived and executed by foreigners who felt that the best interest of the Gold Coast required that it turn outward toward the world economy. As the plan was being put into effect, the world economy collapsed and the Gold Coast's economy faltered with it.

Part of the trouble was that the British government did not act to maintain a high level of aggregate activity throughout the empire. For example, had the United Kingdom expanded foreign investment to the colonies

during this period, it would have solved its own problems of depression as well as the growth problems of the colonies. However, it was unable to take the necessary steps, and instead transmitted the full impact of the world crisis to its colonies.

It is interesting to note that the failure of the plan did not result in a political upheaval. There were crisis (the cocoa boycott, for example) but political control and stability were maintained even during the great stresses of the war when imports fell. In the postwar period, a very different political system led to a very different outcome, when the economic pattern of 1920-1945 repeated itself.

#### IV

We may briefly summarize some major conclusions that emerge from this condensed and simplified examination of British colonial policy and its effects in the Gold Coast between 1900 and 1945.

1. Foreign investment proved to be a poor engine of growth. Although foreign investment was welcomed its contribution to the economy was very limited.

2. The major dynamic for growth came from the African sector of the economy and it achieved its success with little help from the government, or from foreign capital and technology.

3. Despite the great success of the African sector in establishing Ghana as the leading producer of cocoa in the world and successfully maintaining its share in the face of competition from equally fertile areas elsewhere, (including some in which cocoa is grown on a European Plantation basis), African businessmen were not able to diversify into manufacturing or large scale modern farming. Ghana remained a nation of small farmers and traders selling unfinished products on the international market.

4. The international economy proved highly unreliable and unstable as a foundation on which to build the economy.

5. The productivity of the government sector was low. It made important errors in planning the transport system; it failed to do adequate research; it underestimated the strength and needs of the African sector; and it overstressed the importance of foreign trade and foreign capital. The government created linkages with the mother country, but decreased them with neighboring African countries, and failed to improve internal linkages within the economy.

6. The government also proved to be rigid and inflexible rather than enterprising. It did not actively seek out new opportunities to anywhere near the extent possible and when its strategy failed, it retrenched rather than

make attempts to change its course. The government was a reluctant and gradual modernizer, and at times atavistic and entrenched in feudal values. The British brought some of the benefits of industrial progress to Ghana; they also used Ghana as an outlet for the tensions and problems of British society. Contrary to what is often claimed, the credit for opening up the country cannot be given to the British colonial administration; and as we shall see in the next section, when the administration departed in 1957, it left behind a meagre heritage.