

Fosu, Augustin Kwasi

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Country role models for development success: The Ghana case

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Research Paper No. 2009/42

Country Role Models for Development Success

The Ghana Case

Augustin Kwasi Fosu*

June 2009

Abstract

The current paper, first, documents Ghana's 'success' story. Second, it identifies the strategy employed. Third, it provides a brief history of why and how the strategy was adopted. Fourth, it provides some rationale for the success of the strategy, including the roles of domestic and international actors. Fifth, it conjectures the viability of the strategy into the future. Finally, the paper draws lessons for possible application to other less successful countries.

Keywords: role models, Ghana, success

JEL classification: O55

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*UNU-WIDER, Helsinki, email: fosu@wider.unu.edu

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Acronyms

BOP	balance-of-payments
BWIs	Bretton Woods institutions
EAP	East Asian and Pacific countries
ERP	economic recovery programme
FDI	foreign direct investment
HDI	human development index
MDGs	Millennium Development Goals (MDGs)
NDC	National Democratic Congress (Ghana)
ODA	official development aid
PAMSCAD	Programme of Action to Mitigate the Social Costs of Adjustment
SAP	structural adjustment programme
SF	syndrome-free
SSA	Sub-Saharan Africa
TFP	total factor productivity

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UNU World Institute for Development Economics Research (UNU-WIDER)
Katajanokanlaituri 6 B, 00160 Helsinki, Finland

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1 Introduction

On 6 March 1957, Ghana became the first country in Sub-Saharan Africa (SSA) to attain formal independence from colonial rule. Amidst the celebration, there were great expectations for the country's strong future development. By the mid-1960s, however, the country was experiencing economic difficulties, with growth falling substantially. In the early 1980s, Ghana's per capita income was less than its value at the time of independence.

There was a reversal in the trend in the mid-1980s when Ghana embarked on a new development strategy of economic liberalization, based on the 'Washington consensus'.¹ Economic growth improved considerably. Although rather modest in comparison to the spectacular growth of the East Asian and Pacific (EAP) countries or the African countries of Botswana and Mauritius, growth has continued, with GDP growing faster than population every year since. The relatively high per capita income evident in the immediate post-independence period has at least been restored. While this outcome may seem modest, it is important to remember that population size has not remained constant, increasing from six million at the time of independence to about twenty million today. Meanwhile, Ghana's human development index (HDI) has continued to increase, ranking it among the medium human development countries.

At the same time, the incidence of rampant coups of the post-independence era, dubiously characterizing Ghana as one of the most elite-politically unstable countries in Africa, has now given way to a stable multiparty democracy. Similarly, being the first SSA nation to attain independence, Ghana has again taken the lead as the first SSA country to transform peacefully from one civilian rule to (distinctly) another.²

The current paper, first, documents the above-mentioned 'success' story. Second, it identifies the strategy employed. Third, it provides a brief history of why and how the strategy was adopted. Fourth, it provides some rationale for the success of the strategy, including the roles of domestic and international actors. Fifth, it conjectures the viability of the strategy into the future. Finally, the paper draws lessons for possible application to other less successful countries.

2 The 'success' story

Ghana's GDP growth began to dip in the early 1960s (Figure 1). This downward spiral continued until about 1966, the time of the first *coup d'état* by the military. The resurgence of growth was short-lived, however, falling substantially again in the early 1970s, exhibiting a downward trend until the early 1980s. Since then, economic growth has been higher than its historical average. Although the post mid-1980s growth has not

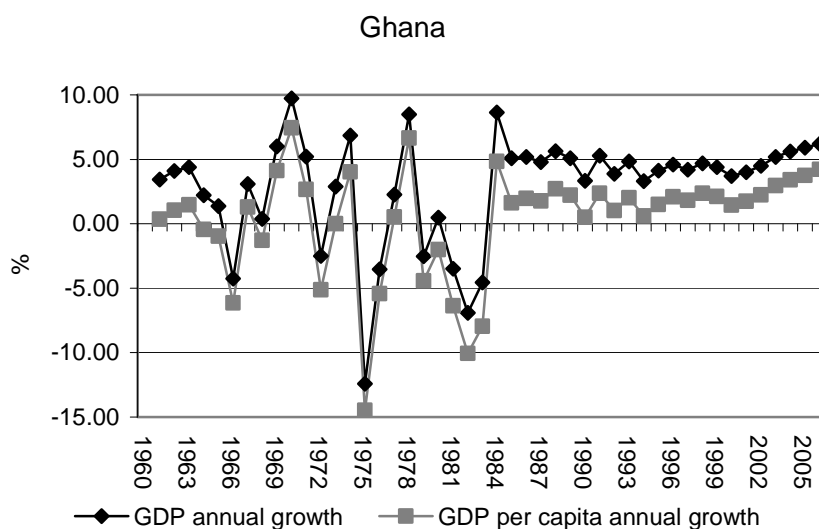
¹ In Williamson's original formulation (1990), the Washington consensus comprises the following key features: fiscal discipline; trade liberalization; liberalization of (inward) foreign direct investment; privatization; strong protection of property rights; reordering of public expenditure priorities toward public goods (e.g., health and education); liberalized interest rates; tax reform involving broad taxbase and moderate marginal rates; and deregulation to ease barriers for firms' entry into and exit of sectors.

² More recently in 2009, Ghana again transitioned from the incumbent to the opposition despite the latter's marginal lead, 50.23 per cent versus 49.77 per cent, in the run-off presidential election.

been spectacular *per se*, it has been sufficient to outstrip population growth every year, and there appears to be an upward trend since 2000. Furthermore, it is noteworthy that growth has been quite stable, especially when compared with its high volatility record preceding the early-1980s.

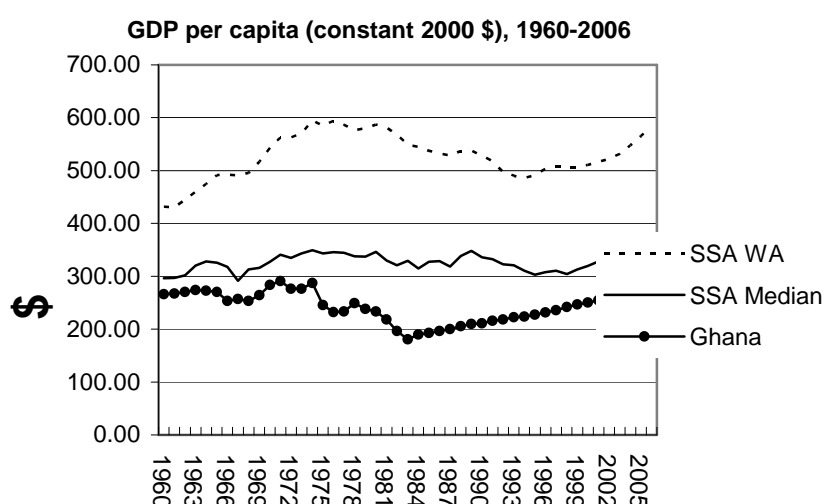
Ghana's per capita income fell by about one-third during 1974-83 (Figure 2). However, there has been a reversal in course thereafter, with income reaching its highest level ever since independence. Although this level is lower than the overall average for SSA, the PPP-adjusted value provides a more accurate comparison.

Figure 1
Growth of the Ghana economy, 1960-2005



Source: World Bank (2007).

Figure 2
Evolution of income in Ghana versus SSA, 1960-2005

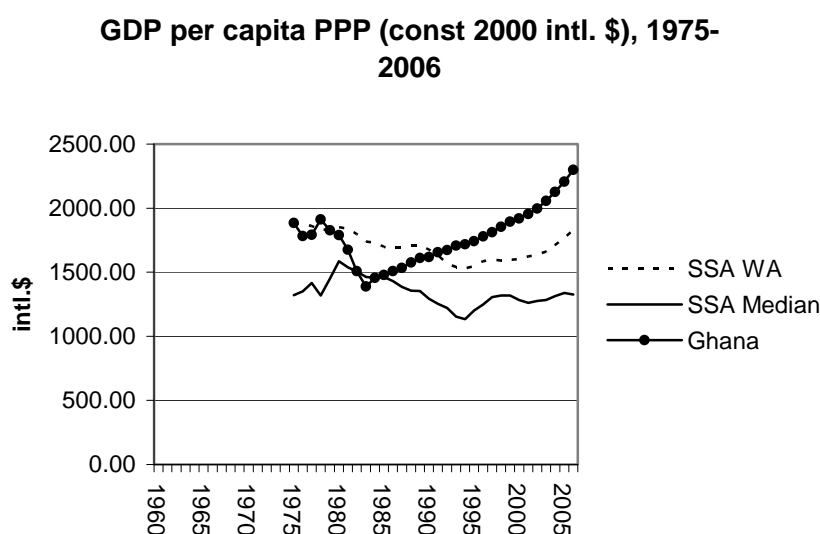


Source: World Bank-WDI (2008).

Accordingly, the PPP-adjusted per capita income, which was lower in Ghana than in SSA overall in 1983, has risen steadily from a low of US\$1,387 (PPP-adjusted 2000 international dollars) in 1983 to US\$2,300 in 2006 (Figure 3). This performance has surpassed that of SSA in general, which registered in 2006 a weighted per capita income of US\$1,826 and a median income of US\$1,327.

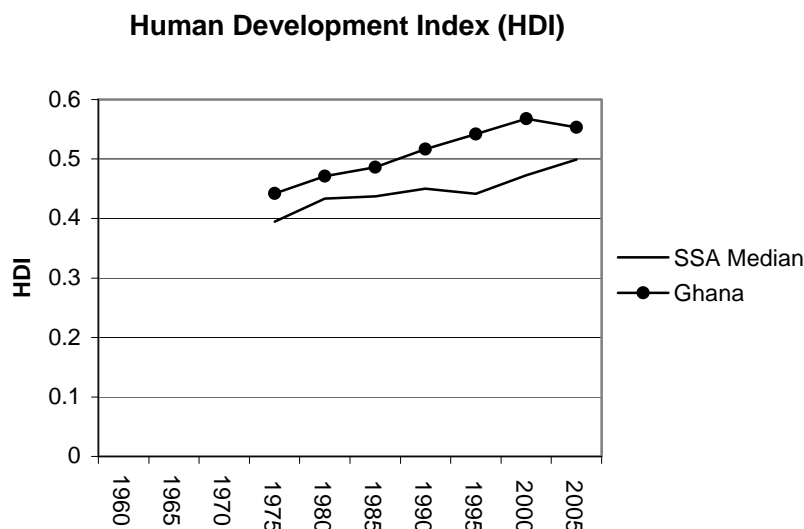
Ghana's human development index (HDI) has also risen from 0.44 in 1975 to 0.55 in 2005, compared with a rise from 0.39 to 0.50 for the SSA median over the same period (Figure 4). This Ghana-SSA difference does not seem to have changed significantly over time. Nevertheless, Ghana's HDI currently ranks the country in the 'medium human development' category and among the top SSA performers in human development as measured by HDI.

Figure 3
Evolution of income (PPP) in Ghana versus SSA



Source: World Bank (2007).

Figure 4
Evolution of human development in Ghana versus SSA



Source: UNDP (2007/08).

Furthermore, Ghana has succeeded in reducing its poverty rate from 51.1 per cent in 1992 to 39.1 per cent in 1999 and to 30.0 per cent most recently in 2006 (based on the one dollar a day standard, equalling \$1.25 2005 PPP-adjusted) (World Bank 2009).³ Such an accomplishment has projected Ghana to become one of the few African countries on track for reaching the First Goal of the Millennium Development Goals (MDGs), i.e., halving poverty rate by 2015. The relatively low initial inequality in Ghana (Gini of 0.36 versus 0.45 for SSA generally) appears to have increased the effectiveness of growth for poverty reduction.⁴

3 The development strategy

To appreciate the development strategy adopted in 1983, it is important to understand the economically destructive nature of the development strategies preceding it. The 1973-83 era was one of continued deterioration of the Ghanaian economy under five different governments, most of which were military (Table 1). Having ‘muddled’ through the 1970s with very little to show for it economically (Aryeetey and Fosu 2008), it was time to change course from the earlier period that had been characterized in general by import substitution, supported by a restrictive foreign exchange regime and an overvalued Cedi (the domestic currency), general price controls and quantitative restrictions on imports, with the state as a major producer.

The new development strategy was crafted in conjunction with the Bretton Woods institutions (BWIs) to reform the economy. Specifically, the intention was to minimize the role of government in the economy and to allow markets to work—the Washington consensus. The first phase of the reform, instituted in April 1983, was a stabilization programme dubbed the *economic recovery programme* (ERP). A hallmark of this programme was liberalization of the foreign exchange and other markets in order to halt the downward economic spiral that saw inflation as high as 123 per cent in 1983 and a reduction in per capita income of 10 per cent in 1982 alone (Aryeetey and Fosu 2008).

The second phase began in 1986 with the adoption of the structural adjustment programme (SAP), which was geared towards correcting a number of structural imbalances. For the first time since independence, a floating exchange rate system was established, import licenses abolished, import tariff schedules dramatically minimized, and restrictions on foreign exchange outflow substantially relaxed. In addition, fiscal and monetary policies were rationalized, and a programme of privatization embarked upon.

³ This poverty-reduction performance surpasses, for instance, that of India, whose poverty rate at the same standard fell from 49.4 per cent in 1994 to 41.6 per cent in 2005 (ibid.).

⁴ Fosu (2009) finds that Ghana ranks in the (top) fourth quintile of the distribution in the income-growth elasticity of poverty in SSA, in contrast with Botswana, for example, which is ranked in the first quintile. This difference is explained mainly by initial inequality. Thus, while Ghana’s growth may not have been as spectacular as Botswana’s, the record of poverty reduction in Ghana has been much more impressive (ibid.).

Table 1
Summary of Ghana's political and economic regimes

Dates	Government	Type	Economic/political stance
1957-66	K. Nkrumah Convention People's Party	Civilian	Socialist with eastern bloc orientation, inward-looking; protectionist; high levels of public spending and establishment of state owned enterprises
1966-67	A. Afrifa / E. Kotoka National Liberation Council	Military	Renowned socialist orientation, austere, tentative steps towards liberalization
1969-72	K. A. Busia Progress Party	Civilian	Market-oriented, stronger moves towards liberalization, attempted large devaluation
1972-77	Gen. I. Cheampong National Redemption Council	Military	Inward looking: protectionist; reversal of Busia devaluation
1975-78	Gen. I. Cheampong Supreme Military Council I	Military	Inward looking: protectionist
1978-79	Gen. F. W. K. Akuffo Supreme Military Council II	Military	Inward looking: protectionist
1979	Fl. Lt. J. J. Rawlings Armed Forces Revolutionary Council	Military	Some reforms but a general tightening of economic controls
1979-81	H. Limann	Civilian	No real change
1981-92	Fl. Lt. J. J. Rawlings Provisional National Defence Council	Military	Initially a tightening of controls but from April 1983, an outward-oriented <i>Economic Recovery Programme</i> (ERA)
1988	Divestiture Implementation Committee	Military	As an outgrowth and integral part ERA; to oversee and implement the divestiture/privatization process
1993	Fl. Lt. J. J. Rawlings National Democratic Congress (NDC)	Civilian	Continuation of ERA, privation and divestiture. No regular opposition in government/parliament
1997	Fl. Lt. J. J. Rawlings NDC	Civilian	Second election year in the 4th Republic. The minority parties participated in the election.
2001	John Kuffuor NPP	Civilian	Multiparty democracy
2005	John Kuffuor NPP	Civilian	Multiparty democracy
2009	John Atta-Mills	Civilian	Multiparty democracy

Source: Roe and Schneider (1992) and author.

4 Adoption and success of the strategy

The rationale for adopting this strategy was simply the critical condition of Ghana's economy. The government had nowhere to turn but to the World Bank and IMF for financial support. For example, appeals to the socialist countries, particularly the Soviet Union, during the drought of the early 1980s resulted in little support, thus virtually foreclosing alternatives to accepting the capitalist-based reform (Aryeetey and Cox 1997).

The extreme difficulties were precipitated not only by the cumulative effects of bad policies but also by adverse shocks such as the substantially higher prices of imported petroleum in the 1970s due to OPEC action. Ghana also experienced a severe drought in the early 1980s, accompanied by massive emigration from the rural sector as more than two million Ghanaians migrated to Nigeria in response to that country's oil boom. Furthermore, the government's taxbase was particularly hard hit, and central government revenues fell from 20 per cent of GDP in 1970 to a mere 5 per cent of GDP, which was also smaller (Aryeetey and Fosu 2008).

Fosu (2008b:143-4) writes:

Severe fiscal difficulties were apparent in the early 1980s. By 1983, incidentally a year of very severe drought, central government revenues had shrunk to only 5 per cent as a proportion of GDP, compared with a rate of 20 per cent in 1970; inflation had accelerated from 18 per cent in 1974 to 116 per cent in 1981, even though prices were supposed to be controlled; domestic investment had fallen to less than 4 per cent, from its value of 14 per cent in 1974; and the current account balance was US\$175 million in deficit, with the country experiencing major arrears and no loans or grants to finance these deficits or arrears. Thus, the radical-leaning Rawlings government appeared to have little choice but to succumb to the IMF/World Bank-sponsored economic recovery programme (ERP),⁵ which was ushered in during April 1983, followed by the structural adjustment programme (SAP) in 1986.

The success story described above is likely to be attributed to the strategy of liberalizing markets inherent in the development strategy associated with the reform. It is indeed noteworthy that structural changes in the macroeconomic variables appear to begin in 1983 when the reform began. It is also interesting to note that the greatest economic growth since reform was in 1984, but which settled to lower rates thereafter. This observation is, of course, the usual 'rebound' effect. Nevertheless, the relatively modest growth has exceeded population growth each year, and has thus contributed to steady per capita income increases and poverty reduction over time.

The rationale for adopting the above-mentioned reform strategy is not limited to Ghana only. Indeed, the economic and fiscal difficulties encountered by many African economies led these countries to adopt similar programmes administered by the BWIs. The SAP was also intended to lead to the growth-enhancing 'syndrome-free' environment.⁶ As Fosu (2008b: 165-6) observes:

⁵ 'One might argue that Rawlings had also learnt his economic lessons by 1983 when it became clear that the political intimidation of suppliers of products accused of hoarding, including bulldozing of the Makola Market, would not solve the economic difficulties' (Fosu 2008b).

⁶ Fosu and O'Connell (2006), for instance, find that being syndrome-free (SF) was a near sufficient condition for avoiding a growth collapse, the major culprit for reducing growth in African economies. It is also a necessary condition for increasing growth in general. Indeed, being SF tended to raise per capita annual GDP growth by about 2 percentage points overall in SSA during 1960-2000. This figure is not paltry, given that it represents about 4 times the realized growth during that period and more than the growth gap with the rest of the world.

The upsurge in syndrome-free cases as of the late 1980s could be traced to the necessity for African governments to escape from dire fiscal straits from which they had found themselves, usually following episodes of controls or unsustainable spending, and thus for accepting the IMF/World Bank liberalization reforms ... While the change from the dual-international paradigm towards the globally dominant paradigm of market-friendly policies played an important part in the transition, the thawing of the cold war at the time also contributed to the exigencies faced by many socialistic African countries that could no longer count on the Soviet Union for assistance. In addition, the substantial erosion of terms of trade in the late 1970s and early 1980s meant that many African countries faced major fiscal difficulties and had to reluctantly accept market-friendly policies accompanying IMF/World Bank bailouts.

5 The political economy of the strategy

The early years of reform were rather difficult for the ruling group headed by Jerry Rawlings. First, there was internal opposition from those who resisted the Washington consensus on ideological grounds, especially in anticipation of the decreases in social expenditures that would result from reform. Second, various government controls had created rent-seeking opportunities that, in turn, spawned self-interest groups. For example, earlier development strategies were urban-biased, in the 'Batesian' sense (Bates 1981), which overtaxed agriculture and subsidized items consumed by the urban population such as education and health. The overvalued Cedi also subsidized urban consumers who disproportionately consumed imports (Fosu 2003).

Accordingly, the expected devaluation of the Cedi was opposed by strong urban interests, whose constituencies included the urban elite such as the military. Hence, it was no surprise that Ghana experienced a number of attempted military coups, including those in November 1982 and June 1983. These threats to the reform led Rawlings to weaken the institutional structures through purging, in order to minimize opposition. This included limiting the authority of the People's Defence Committees and Workers' Defence Committees, which had been created earlier to defend the 'revolution'. The charismatic leadership of Rawlings contributed to his ability to accomplish such a feat. Hence, 'leadership' in the present instance to deal with threats to the embryonic reforms was indispensable (Aryeetey and Fosu 2008).

Another reason for the success of the reform was the inclusion of the Programme of Action to Mitigate the Social Costs of Adjustment (PAMSCAD) as part of the total reform package, which was intended to soften the adverse implications of decontrol and removal of subsidies. In addition, the Trades Union Congress, representing the main national voice of labour in Ghana, took a passive stance, a role was made possible by the historical pacification of labour unions under preceding regimes. Finally, the BWIs were made the scapegoat for the 'bitter medicine'. Domestic architects of the reform created the impression that even though there was a certain aspect of ownership, and the government was concerned about social welfare with such programmes as the PAMSCAD, the country was broke and had no choice but to accept the BWIs' 'imposed' prescription (ibid.).

6 Current outcomes, future prognoses and challenges

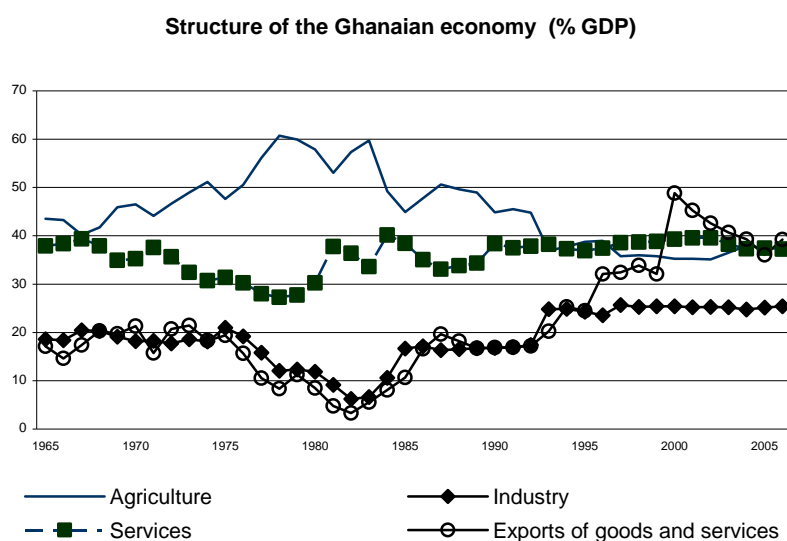
Ghana has clearly improved its economic performance since liberalization in the early 1980s. But an important issue is whether the economy is sufficiently durable for continued improvement. There are several possible barometers for assessing this issue. One of these is the extent to which an economy can be characterized as having undergone sufficient structural change to enable it to compete better in the global environment.

6.1 Economic structure

Figure 5 reports the major sector components of the Ghanaian economy. The agricultural sector has fallen from about 60 per cent of GDP in 1983 to 37 per cent in 2006, while service has increased marginally from 34 per cent to 37 per cent. However, the share of industry has risen substantially from 7 per cent to 25 per cent, indicating an apparent structural shift from agriculture towards industry. In addition, exports have increased from about 5 per cent in 1983 to nearly 40 per cent in 2006, although there is a downward trend from the 48-per cent zenith registered in 2000. Thus, there has been a major improvement in export performance, which tends to be positively associated with economic growth among African economies in general (Fosu 1990a).

From a ‘structuralist’ perspective, an important determinant of structural change is the relative size of the manufacturing sector. Table 2 presents data on the evolution of this sector in the Ghanaian economy. As a share of GDP, there appears to be little change since the 1980s, except for an upward blip immediately after reform. Manufacturing settled at around 9 per cent, which is actually lower than in the 1970s, albeit much higher than the level prior to reform. The data then suggest that the shift towards industry is likely to be attributable to the increased contribution of the mining sector, which ordinarily exhibits limited forward and backward linkages to the economy. Hence, there does not seem to have been any real durable structural change, a result consistent with an earlier observation by Killick (2000).

Figure 5
Evolution of Ghana's economic structure



Source: World Bank (2008).

Table 2
Ghana's manufacturing composition, and government expenditures (%)

Year	Manufacturing as:			Total gov't expenditures (% GDP)
	Share of GDP	Exports (% of GDP)	Share of exports	
1965	9.7	0.2	0.9	17.12
1970	12.4	0.1	0.5	21.33
1975	13.9	0.3	1.4	19.36
1980	7.8	0.1	0.9	8.47
1982	3.6	0.0	0.4	3.34
1985	11.5	—	—	—
1990	9.8	—	—	—
1995	9.3	—	—	—
2000	9.0	7.2	14.7	48.80
2001	9.0	7.4	16.3	45.23
2002	9.0	—	—	—
2003	9.0	5.8	14.3	40.68
2004	8.7	4.8	12.1	39.30
2005	8.6	8.5	23.6	36.09
2006	8.5	12.12	30.9	39.23

Source: World Bank (2008).

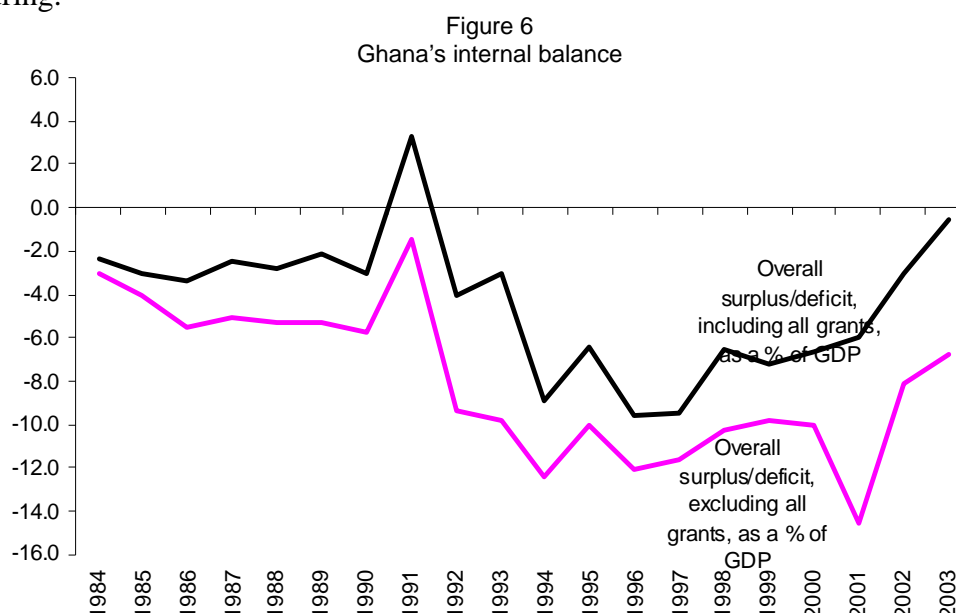
Notwithstanding the above finding of a limited structural change in Ghana's economy, a more important generator of growth tends to be the manufacturing export component, as it reflects the competitive element of production (Fosu 1990b). Indeed, 'market selection' would imply that internationally non-competitive manufacturing firms would exit (Gunning and Mengistae 2001), especially in response to substantial reductions in domestic protection accompanying the reform. Hence, a smaller domestic manufacturing sector might actually be associated with a larger manufacturing export component, which could result in higher growth. Thus, it is promising to note that the manufacturing export share seems to be rising even as the domestic share of manufactures remains stagnant (Table 2). The key concern, though, is whether the data of the more recent period constitute a real trend.

Internal fiscal balance

Another important factor for gauging Ghana's economic future is the internal budget balance. This balance, measured as the government budget exclusive of grants as a proportion of GDP, continued to be negative by 2003 at -7.0 per cent, compared with -3.0 per cent in 1984 (Figure 6), an improvement from its zenith of -15.0 per cent in 2001. Despite the persistence of the deficit, the picture has actually improved in recent years. External grants from ODA have helped finance a part of the deficit, so that by 2003 the deficit inclusive of grants was only 0.6 per cent of GDP, compared with a deficit of 6.8 per cent exclusive of grants (Figure 6).

In terms of a longer-term prognosis, reduction of these deficits is important, for they tend to crowd-out private investment and to impede growth in developing countries (Mlambo and Oshikoya 2001). Financing the deficit may also require increased debt (external or domestic), or a rise in the money supply, either of which can adversely

affect the economy.⁷ Despite being able to cut the budget deficit during 1986-91, when it stabilized at about 5.0 per cent of GDP, and even fell to 1 per cent of GDP in 1991 (Figure 6), the government has subsequently recorded substantial deficits due to wage increases for civil service and public corporations as well as costs incurred during the transition to democratic rule. Indeed, the effect of an electoral cycle seems evident, as the deficit increased considerably around the election periods of 1992, 1996, and 2000, for instance. However, the recent downward trend in domestic fiscal deficit is reassuring.



Source: World Bank, WDI CDROM (2005).

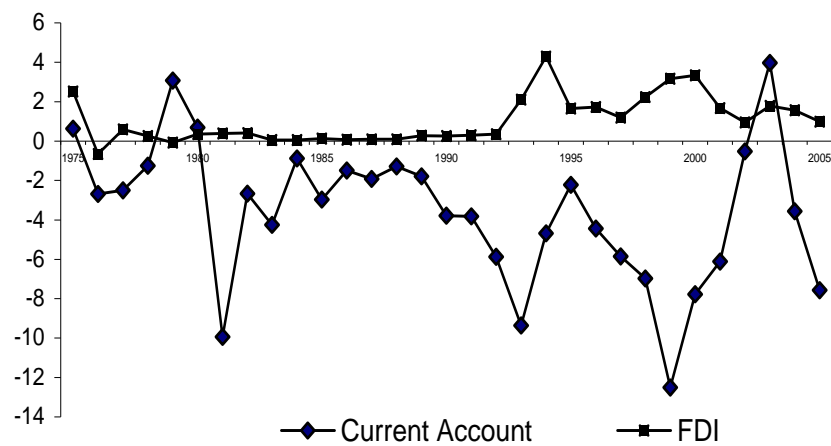
External budget balance

As a result of the balance-of-payments (BOP) difficulties prior to reforms, one of the main objectives of the economic reform programme was to achieve a viable BOP position for Ghana in the medium to long term (Aryeetey and Fosu 2008). This was to be achieved by raising export earnings and foreign direct investment (FDI). However, while exports have grown substantially since the reforms (Figure 5), imports have grown even faster; consequently, the current account has continued to show persistent deficits that seem to have been worsening since the 1990s (Figure 7). Indeed, except for 2003, the current account has been in the red every single year. Further, although FDI has picked up considerably since the reform, it is still registering only 1.0 per cent of GDP in 2005, down from the recent peak of 3.3 per cent in 2000 (*ibid.*). What these data suggest, then, is that Ghana has been relying more and more on external sources to fund its external budget deficits, and has been unable to generate as much for the external market as it imports. Nor has there been an adequate vote of confidence by external investors via FDI.

For now at least, the relatively high levels of ODA (Figure 8) appear to finance the twin domestic and external deficits. This support has been rising substantially since the

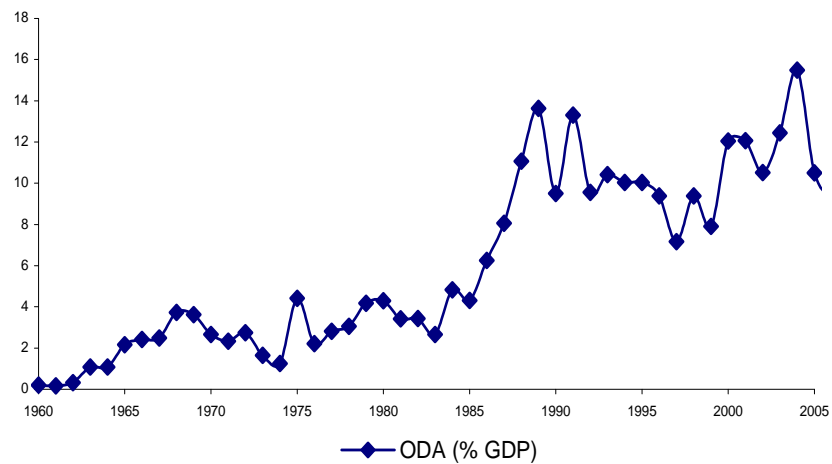
⁷ In particular, external debt has been found to be growth-inhibiting among African economies (Fosu 1992, 1996), while excess money supply can be inflationary.

Figure 7
Ghana's external balance and FDI (% GDP)



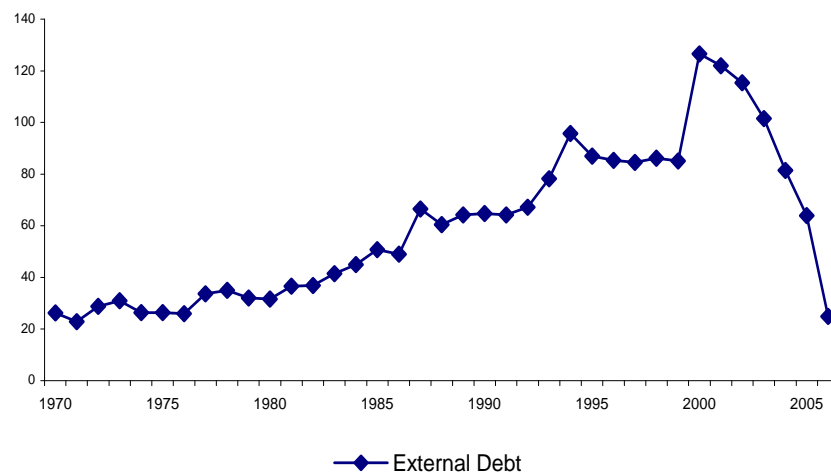
Source: World Bank (2008).

Figure 8
Ghana's ODA



Source: World Bank (2008).

Figure 9
Ghana's external debt



Source: World Bank (2008).

reform, though there appears to be some levelling-off in the more recent period. In 2005, for example, the ODA/GNI ratio was 10.5 per cent, falling from a peak of 15.5 per cent in 2004. Some of this ODA is in the form of debt write-off, however. Ghana's external debt stock has been decreasing since 2000 from a high of 126.6 per cent of GDP to only 10.5 per cent in 2005 (Figure 9). Overall, the record on the sustainability of the external and domestic balances seems mixed. In the final analysis, the situation is not sustainable in the long run. Accelerated efforts to augment exports relative to imports is required if the past successful record of economic outcome is at least to be maintained.

Some macroeconomic indicators

Two macroeconomic indicators are of particular importance in terms of the future prognoses: capital formation and inflation. The first gives an indication of the extent to which growth is supported by physical capital following gains in total factor productivity beginning in the late 1980s, followed by rather strong support from capital formation in the latter part of the 1990s (Table 3). Indeed, nearly all the gains in the per worker GDP growth in 1985-2000 were due to improvements in total factor productivity (TFP). It was not until the latter part of the 1990s that increases in physical capital kicked in. Meanwhile, human capital contribution has been rather minimal.

Gross capital formation has increased substantially since the reform, from the nadir of 3.4 per cent of GDP in 1982 to 32.4 per cent in 2006 (Figure 10). This rate is larger than the SSA average of nearly 20.0 per cent and quite comparable to the levels in South Asia, where the average is 28.0 per cent, with India registering a rate of 29.5 per cent (World Bank 2008). Thus, Ghana has performed very well in this regard, a performance that seems to bode well for the future.

The second important macroeconomic indicator is inflation, as it provides a signal of how well the economy is being managed (Fischer 1993). The inflation picture has brightened considerably since the reform. At an annual rate of 15.0 per cent in 2005, this is a marked improvement from the 123.1 per cent peak annual rate in 1983 (Figure 11). Nonetheless, additional effort is required to reduce the rate further, as the current rate is too high by global standards.

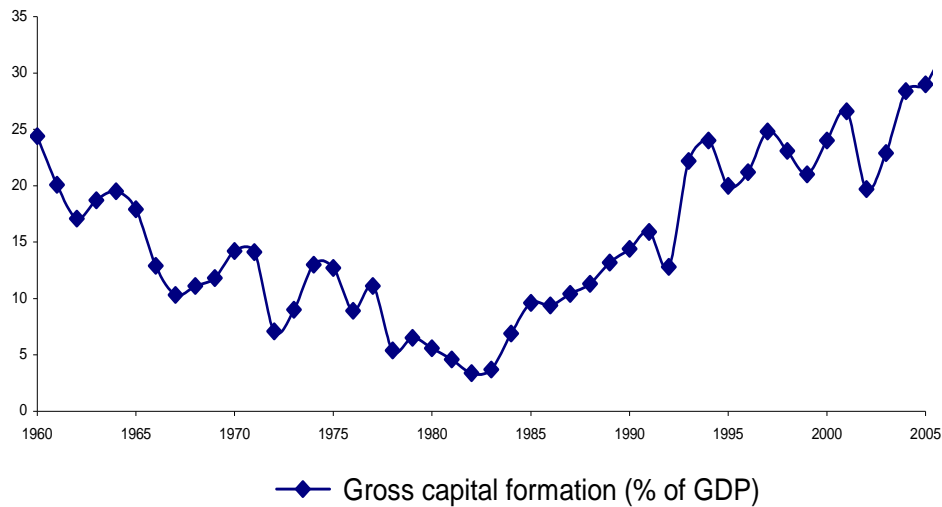
Table 3
The Collins and Bosworth growth accounting-based decomposition of sources of growth, Ghana versus [SSA]*

Period	Growth in real GDP per worker		Contribution of:					
			Physical capital per worker		Education per worker		Residual	
1960-64	0.62	[1.33]	1.90	[0.53]	0.37	[0.12]	-1.64	[0.68]
1965-69	-0.26	[1.74]	0.65	[0.80]	1.06	[0.20]	-1.97	[0.75]
1970-74	1.54	[2.33]	-0.28	[1.05]	0.43	[0.22]	1.39	[1.06]
1975-79	-3.74	[0.19]	-0.06	[0.74]	0.25	[0.24]	-3.92	[-0.79]
1980-84	-4.17	[-1.70]	-1.19	[0.16]	0.18	[0.29]	-3.17	[-2.16]
1985-89	1.52	[0.45]	-1.28	[-0.22]	0.15	[0.34]	2.65	[0.33]
1990-94	1.05	[-1.74]	0.05	[-0.08]	0.15	[0.30]	0.85	[-1.95]
1995-2000	1.77	[1.51]	1.17	[-0.12]	0.15	[0.26]	0.44	[1.37]
Total 1960-2000	-0.18	[0.51]	0.10	[0.36]	0.34	[0.25]	-0.62	[-0.09]

Note: * The decomposition is based on the production-function: $q=Ak^{0.35}h^{0.65}$, where q , k and h are GDP per worker, physical capital per worker and human capital (average years of schooling) per worker, respectively, with assumed respective capital and labour shares of 0.35 and 0.65. The 'residual' measures the growth of A , the total factor productivity (TFP).

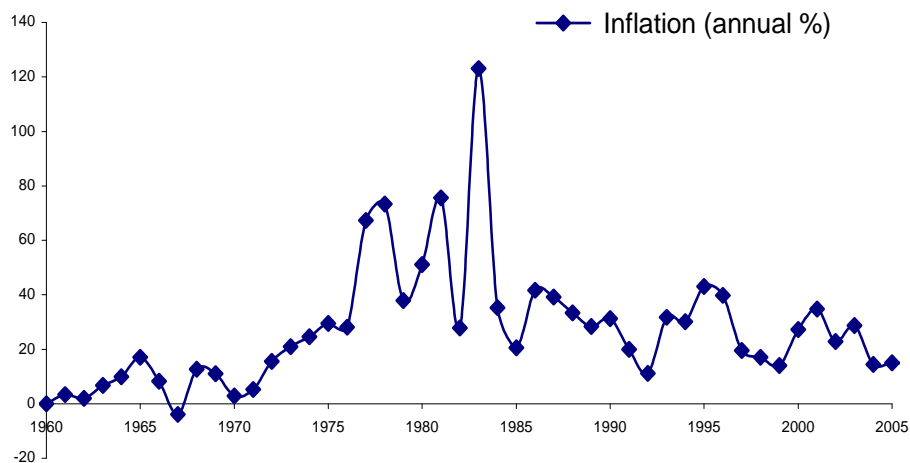
Source: Ndulu and O'Connell (2003).

Figure 10
Ghana's capital formation, 1960-2005



Source: World Bank (2008)

Figure 11
Ghana's inflation picture, 1960-2005



Source: World Bank (2008).

Political economy

The major feat in Ghana is its emerging maturity of liberal democracy. The country was the first in SSA to achieve a transfer of power from one civilian government to another (distinct party) via an electoral process, and transferred again in 2009 power to the opposition. The (first) principal component of the measures of electoral competitiveness (both legislative and executive) has improved from 1.5 in 1975-79 to the maximum possible score of 7.0 in 2000-04 (Table 4). Thus, Ghana has gone from a virtual dictatorship to a full-fledged multiparty democracy (Table 1). This represents an important transformation, for the country seems to have transcended the threshold towards a positive impact of democratization (Fosu 2008a).⁸ Meanwhile, in terms of

⁸ Fosu (2008a) finds that democratization tends to be growth-inhibiting until a threshold of about 4.4 with respect to either the index of legislative or executive electoral competitiveness.

constraints on the executive, Ghana has improved its score of 1.0 (minimum possible score, where there is virtually no constraint on the executive) recorded in 1960-64 and 1985-89 to a score of 5.6 during 2000-04 out of a possible maximum of 7.0 that indicates strict rules on executive governance (Table 4). This latter score compares with the SSA average of less than 4.0. Since a higher value indicates better public governance, which should in turn enhance growth (Rodrik, Subramanian and Trebbi 2004), such a transformation represents an important achievement for Ghana.

A related issue is the relative political stability recently achieved by Ghana. Fortunately, Ghana has not encountered open conflicts. It has, however, historically been considered a dubious leader in the area of elite political instability in the form of *coups d'état* (McGowan 2003). This picture has changed dramatically, though, since the abortive coups that had characterized the early reform period. Such a transformation is important, given the evidence that the incidence of coups has contributed substantially to the diminished growth in Africa (Fosu 1992, 2002a), and indeed to the transformation of growth to human development (Fosu 2002b).

Table 4
Evolution of democratic political maturity

	1975-79	1980-84	1985-89	2000-04
XCONST	2.2	1.8	1.0	5.6
IEC	1.5	3.7	1.5	7.0

Notes: **XCONST**: executive constraint (1 = lowest, 7 = highest).

IEC: index of electoral competitiveness (first principal component of the indexes of legislative and executive electoral competitiveness (1 = lowest, 7 = highest).

Sources: Polity IV Project and Database of Political Institutions, respectively).

7 Conclusion and lessons

What seems clear about the Ghana case is that the liberal reforms instituted in the early 1980s have succeeded in positively changing the historical direction of the Ghanaian economy. Economic growth has risen substantially, and so has income, supported initially by productivity increases and later by strong capital formation. While Ghana's record of growth seems modest especially in comparison to East Asia and the African economies of Mauritius and Botswana, it has nevertheless been translated into considerable poverty reduction, with the poverty rate decreasing by some 40 per cent between the early 1990s and 2006 and putting the country on-track to meet Goal 1 of the MDGs. Relatively low levels of inequality appear to have contributed to this progress in poverty reduction.

Despite the above record, much remains to be done. Ghana's income is still too low and its poverty rate of nearly 30 per cent too high. It appears that greater structural change is required, and the country needs to gradually wean itself away from international support of its domestic and external deficits. The good news, though, is that the country seems to be reaching democratic maturity that should provide the requisite environment for more productive domestic and foreign direct investments. At the very least, Ghana appears to have escaped the political disorder that accompanied liberalization in several African countries.

The main lesson here seems to be that market liberalization based on the Washington consensus, supported by deepened democratization, can be effective in resuscitating moribund economies. It is also apparent that the consensus must be supported by strong leadership domestically and by appropriate external aid. Finally, ensuring fiscal prudence, both domestically and externally, and achieving greater productive infrastructure—physical, human and institutional—appear to be salient strategies required to deepen the progress.

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