
# PBBS 206: Economy of Ghana

## Lecture 1

## Overview of the Ghanaian Economy

*Michael Insaidoo*

# Learning Objectives

*After completing this lecture, you will:*

- Outline and explain the basic characteristics of the Ghanaian economy
- Compare Ghana with other developed economies and determine whether or not Ghana is a Developed or Less Developed Country (LDC)
- Distinguish between economic growth and economic development
- Outline the various resources of the country and economic history of Ghana from the thirteenth century and discuss the obstacles that have thwarted Ghana's effort to economic development

# Preamble

- This lecture provides discussion on the general overview of the economic and social development in the country over the years as well as the structural development of the economy as the benchmark against which the future progress can be made
- The purpose of this topic is to discuss how the country started and the stages of development the country has gone through and the various development options adopted in the past

# Brief Economic History of Ghana

- Ghana obviously was born out of the colonial Gold Coast
- Though Ghana (then Gold Coast) existed before the fourteenth century, however economic history dates back to the thirteenth or fourteenth century
- Ghana went through various eras in its economic development prior to independence
- These eras are categorized into pre-imperial, imperial and colonial eras

# Pre-Imperial (the Gold) Era

- Gold production stimulated Ghana’s economic growth before the arrival of the Europeans
- The fourteenth century saw Ghana prospering from gold trade
- Ghana traded with the Europeans through the Trans-Saharan Caravan routes
- In the early modern age, Western Europe acquired gold to meet the needs of its expanding money economy
- The primary source of gold was West Africa, where it was brought across the Saharan through North Africa ports to Europe

# Pre-Imperial (the Gold) Era cont….

- Europeans experienced acute gold shortage in the fourteenth century, thus among other factors decided to directly access the gold from the West Africa source
- The Portuguese were attracted to Elmina thus built Elmina castle in 1481
- Activities of other European nations were also geared towards the acquisition of gold. It was largely because of gold that the Dutch, Danes, Swedes, English, French etc entered the West African Trade
- By the end of the fifteenth century, the Portuguese carried b/n 950 &1350kg of gold annually from Ghana

# The Imperial (the Slave Trade) Era

- With the trade boom in the West African coast in the fifteenth century, the Portuguese cultivated the habit of taking back a few Africans on each trip to serve in rich households in Europe
- The performance of the house helps began the activity of kidnapping Africans, which started the Atlantic slave trade
- The Europeans traders made huge profits in the triangular trade
- The Europeans needed African slaves to work on their plantations in the North, South America & Caribbean

# The Imperial (the Slave Trade) Era cont….

- Large supplies of guns promoted the slave trade
- Reports in 1706 indicate that Cape Coast alone exported 10,198 captives in two and half years, while the annual figure for Anomabu was 5,000 slaves
- Many slaves were lost through slave raid and death during the march to the coast and the sea passage
- It is estimated that Africa lost close to 20 million people during three centuries of the Atlantic Slave Trade

# Economic Dev't in the Nineteenth and Twentieth Centuries prior to 1957

- At the beginning of the twentieth century, there was no mile (or kilometre) of rail or motor road therefore no trains and lorries
- Transport was by means of canoe and load carriage on the head
- Barter trade abounded and commodity currencies like cowries, shells, iron rods, gold dust etc existed
- The abolition of slave trade created economic vacuum in the west coast, measures adopted to fill this vacuum brought fundamental change in the economy of Ghana
- Subsequent years saw the development of legitimate

# Economic Dev’t in the Nineteenth and Twentieth Centuries prior to 1957 cont….

- Trade, (trade in natural products)
- The production of these commodities in turn created problem of transportation and exchange which led to the construction of road and railways and the introduction of currency and banks
- The only governor of Gold Coast that is singled out to have brought economic development and infrastructure was Sir Gordon Guggisberg
- He initiated a 10-Year Development Plan (1920 – 1930)
- During this D-Plan, he constructed the western railway lines, Achimota College, Korle-Bu Teaching Hospital etc

# Economic Dev't in the Nineteenth and Twentieth Centuries prior to 1957 cont….

- The Ghanaian economy was predominantly agrarian, yet the colonial masters were interested in mining
- Of the £12.5 million, only £151,000 (1.2%) was spent on agriculture, forestry and fishing
- Additionally, few agric research stations were established and those were small in size and most were wrongly located
- The Watson commission in 1948 criticized government lackadaisical agricultural policy
- The Watson Report compelled the colonial masters to be more involved in agriculture ventures

# Economic Dev’t in the Nineteenth and Twentieth Centuries prior to 1957 cont….

- In 1947, the colonial administration set up the Industrial Development Corporation (IDC) to promote the expansion of the industrial sector
- Loans, technical and management assistance were given to the private investors
- By 1957, there were few industries in the country
- Ghana like other colonial territories was geared towards the supply of primary products and raw materials to feed the manuf. industries in the UK
- The country was a dumping ground for the manufactured of all sorts from Europe

# Brief Economic History of Ghana:1957-2013

- The historical development of Ghana has been partitioned into phases
- We will then look at the characteristics of each of these phases
- These partitioning are made primarily on trade regimes and not necessarily on government regimes

# First Phase – Nkrumah Regime

- The first phase is from 1957 – 1961
- This period was characterized by relative economic prosperity
- Ghana had an open economy with the private sector as the main engine of growth and the public sector was concerned basically with public administration
- No restrictions on foreign account transactions including imports of goods and services by all and sundry
- A period of liberalization and unrestricted international trade

# First Phase – Nkrumah Regime Cont……

- This was a period of rapid economic growth averaging about 5% annually
- There was remarkable price stability

# Second Phase

- In Ghana’s quest to rapidly develop social and economic infrastructure, it led to a quick drain of its foreign exchange reserves
- This compelled the government in 1961 to resort to foreign exchange and imports controls
- This phase was the period 1961 – 1966
- This was a period of restricted trade; a system of import controls i.e. tariffs and quota systems and sometimes outright bans on certain imports.
- The productive and distributive sectors of the economy were shifted from private sector to the public sector

# Second Phase Cont……

- As a result the public sector became the engine of growth
- Heavy public investment especially in physical capital and infrastructure
- This resulted in huge budget deficits, overvalued currency and balance of payment difficulties
- By the end of the second stage phase, the economy had stagnated
- Inflation rate stood at 26% in 1965

# Third Phase

- This is the period 1967 – 1971
- This phase begun with strict adherence to controls which was thought to be the solution to Ghana's problems
- At the same time there was a gradual shift from controlled regime to an attempt at liberalization and stabilization of the economy
- This involved devaluing of the currency with attempts at reducing governmental expenditures which was blamed for the woes of the economy

# Third Phase Cont……

- An IMF recommendation was implemented which led to 43% devaluation of the cedi in 1967
- At the time $1.00 was exchanged for ₡1.02
- This phase ended with another devaluation in December 1971
- The cedi was devalued by 44%
- This time $1.00 was exchanged for ₡1.82
- The pace of liberalization was heightened in 1969
- Some public sector productive and trading activities were streamlined and abolished –employees retrench

# Fourth Phase – Acheampong Regime inclu

- This is the period 1972 – 1982
- This phase witnessed a return to strict import controls
- The currency was revalued by 42%
- $1.00 was exchanged for Ȼ1.28
- A crash agricultural programme code-named Operation Feed Yourself was introduced
- The programme in effect diverted resources to non-existent projects
- Inflation rose rapidly and by 1976, the CPI registered an inflation rate of 54%

# Fourth Phase Cont……..

- The inflation problem deteriorated for subsequent years reaching a peak of 73% in 1978
- There was stagnation and a virtual collapse of the economy
- Between 1978 and 1982, $1.00 was exchanged for ₵2.75
- The cedi was clearly over-valued and this resulted in a flourishing illegal economic activity – black market rates increased

# Fifth Phase

- This is the period 1983 to date
- This is the period of economic reforms
- The problems of the 1970s and early 1980s, following economic mismanagement and poor policies was very “visible and explosive”
- Economic activities in general declined, there was low level of investment
- General macroeconomic instability, inflation rates were in triple digits
- There was also problem of environmental degradation, increase in rent seeking activities and unemployment

# Fifth Phase Cont……

- Many state owned enterprises were inefficient, creating wastages and a/cing for huge budget deficit
- These problems led to the search for a new approach to development and accounted for the full realization and implementation of the “Washington consensus”
- Emphasis shifted from state-dominated planning models to a decentralized decision-making with the market as the invisible hand
- There was economic and trade liberalization, privatisation, divestiture of state-owned enterprises and de-emphasising the govt role in direct prod. activit

# Fifth Phase Cont……

- The Enhanced Structural Adjustment Programme born out of the first phase of vision 2020 (1996–2000) sought to consolidate gains made under the stabilization programme and SAP
- It also sought to accelerate economic growth with the objective of creating a middle-income country status by year 2020
- In this, the role of government in development is to create an enabling environment for the private sector-led growth and development

# Features of the Ghanaian Economy

- Ghana is principally a developing country
- Ghana earned this tag because of certain features it exhibits or possesses
- We will examine these features or characteristics, then we will be in a better position to appreciate why Ghana is tagged as a developing country or Less Developed Country (LDC)

# Income Levels in Ghana

- Income levels in Ghana are relatively low as compared to levels in the developed world
- The per capita income of Ghana was $1,605 in 2012
- But the USA recorded $51,749 in the same year
- Luxembourg achieved a per capita income of $103,828 in the same year
- The distribution of GNP is also severally unequal
- There is also a small elite group that is very rich and normally based in the urban centres

# Dependence on Agriculture

- The vast majority of Ghanaians live and work in the rural areas
- Over 68% of Ghanaians live in the rural areas and work principally as farmers
- The proportion of labour force engaged in agriculture in Ghana have averaged 60% since 1999, but currently stands at 50%
- This figure compared poorly with an average of 17% for developed nations
- The contribution of agriculture to Ghana's GDP has averaged 35% since 1995 but currently is lil over 22%

# Production Technology

The current structure of production reflects the ff:

- A large peasant based agricultural sector contributing about 22.7% (2012) of aggregate output
- A small modern sector involving manufacturing and mining which accounts for about 15% of overall economic activity measured by aggregate output
- Tertiary sector comprising commerce and services contributing about 50% (2012) of aggregate output
- About 50-60% of the economically active are engaged in primary production whilst in the developed nation, about 5-10% are in the primary production

# Dependence on Primary Products for Exports

- The external sector comprises Imports and Exports
- Ghana has continuously shown dependence on a single crop which is Cocoa for export
- Major exports including cocoa accounts for about 60% of the total foreign exchange earnings
- Normally primary products in LDCs accounts for between 80-90% of exports earnings but in developed countries, it accounts for about 35%
- Ghana's primary sector accounts for on average 80% of foreign exchange earnings signifying that Ghana is indeed a developing country

# Dominance, Dependence and Vulnerability in International Relations

- Greater volume of Ghana's exports comes from primary commodities like cocoa, timber and gold
- The contribution of other sectors like manufacturing to export is relatively insignificant
- Since exports are mainly primary products, it is quite apparent that income from export will fluctuate
- This is cuz prices of primary raw materials fluctuate more than manufactured goods in the world market
- It is therefore inevitable that Ghana's revenue from export will fall which will lead to unfavourable terms of trade which will lead to adverse effect on BOP

# Structure of Ghana’s Economic Growth

- Structurally, the economy of Ghana can be divided into three sectors
- Agriculture, Industry and Services sectors
- **AGRICULTURE**
- Crops other than cocoa
- Cocoa Production and Marketing
- Livestock
- Forestry and Logging and
- Fishing
- **INDUSTRY**
- Mining and Quarrying

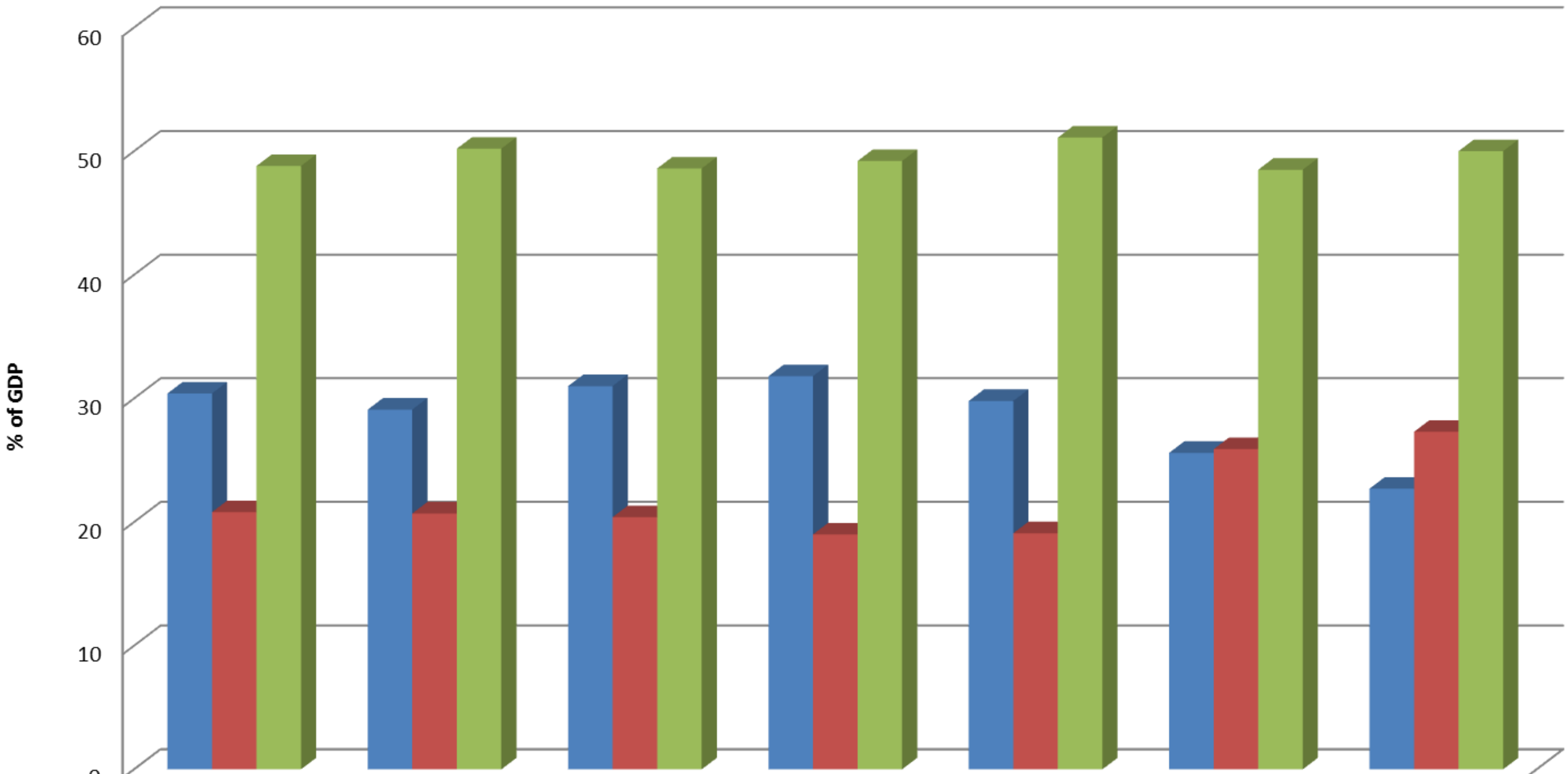
# Structure of Ghana's Economic Growth Cont.....

- **INDUSTRY**
- Manufacturing
- Electricity
- Water & Sewerage
- Construction
- **SERVICES**
- Trade; Repair of Vehicles, Household Goods
- Hotels and Restaurants
- Transport and Storage
- Information and Communication
- Financial Intermediation

# Structure of Ghana's Economic Growth Cont.....

- **SERVICES**
- Business, Real Estate, other service activities
- Public administration and defence; social security
- Education
- Health and Social Work
- Other Community, Social and Personal Service

# Sectoral Contributions to National Output




| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|
| Agric | 30.4 | 29.1 | 31 | 31.8 | 29.8 | 25.6 | 22.7 |
| Industry | 20.8 | 20.7 | 20.4 | 19 | 19.1 | 25.9 | 27.3 |
| Service | 48.8 | 50.2 | 48.6 | 49.2 | 51.1 | 48.5 | 50 |

Courtesy :
www.carlprosper4nugs.yolasite.com

# Distinction Between Economic Growth and Economic Development

- The growth rate of a variable is its percentage increase per annum
- To define economic growth, we must specify both the variable we wish to measure and the period over which the variable is measured
- In an economy, economic growth is based on real GDP or real GNP or national income
- **Economic growth** is the rate of change of real income or real output
- Economic growth is a sustained increase in a country's national income due to an increase in prodn capacity

# Distinction Between Economic Growth and Economic Development Cont….

- Economic growth is of great importance to developing countries
- Greater production of goods and services makes it possible for improvement to take place in the standard of living of their people
- However, a high rate of economic growth does not always mean that the majority of the people will be better off. It depends on issues like:
- The rate of population Growth-Economic growth can be offset by population increases

# Distinction Between Economic Growth and Economic Development Cont….

- The type of goods and services produced-economic growth is simply an increase in the amount of goods and services in the country
- The type of technology used-economic growth tells us nothing about the way increases in productivity come about. If it is capital intensive, then majority of population will be left impoverish
- The income distribution-Economic growth per capita is only an average figure which does not mean that everybody’s income has risen at that rate. The distribution can be skewed with a few pple highly rich

# Distinction Between Economic Growth and Economic Development Cont….

- **Economic Development** means more than just economic growth
- Development is taken to mean growth plus change in the structure of the economy
- It does not mean that the economy is becoming rich but majority of the people are becoming rich as well
- That is changes in the economy are taking place which will ensure that standards of living will continue to improve in the future
- One strong  indication of economic development is that it is a long term process

# Distinction Between Economic Growth and Economic Development Cont….

- To developing countries, structural changes normally consist of:
- Increasing importance of industrial as opposed to agricultural activities
- Reducing migration of labour from rural to urban centres
- Lessening dependence on agricultural or raw materials export
- Reducing population growth and lessening high dependency ratio

# Distinction Between Economic Growth and Economic Development Cont….

- Reducing reliance on loans and grants from other countries
- Reducing illiteracy
- Increasing life expectancy
- Reducing mortality rate etc