Economic History of Ghana

Pre-1983

Courtesy:
www.carlprosper4nugs.yolasite.com

Ghana’s Economy – Pre-Independence

Courtesy:
www.carlprosper4nugs.yolasite.com

Pre-Colonial Era

- Prior to the arrival of Europeans, there was trade between the territory now known as Ghana and her coastal neighbors
- The Portuguese were the first Europeans to arrive in 1471. They found existing trade between Ghana and neighboring states.
- There was trade in slaves, kola nuts, gold and ivory among others
- For 100 years the Portuguese were the only Europeans in the territory and took part in the existing trade

Pre-Colonial Era

- When the transatlantic slave trade began around 1501, the territory thrived on this trade and more Europeans began trading with the inhabitants
- Slaves were exchanged for industrial products like textiles, rum and guns.
- Until the 19th Century however, the only European settlements were forts built to protect mercantile interests on the coast

Pre-Colonial Era

- With the abolition of slave trade in 1807, the Europeans and Africans had to search for 'legitimate' commerce.
- Trading became less lucrative and gradually all the Europeans sold their forts to the British
- By 1874, British jurisdiction was established over the coastal region
- Throughout the 19^{th} Century there were wars between the British and the Ashanti

Pre-Colonial Era

- The last of these wars culminated in the annexation of Ashanti in 1901.
- A protectorate was also declared on the northern territories
- Hence the Gold Coast Colony (the coastal areas), Ashanti and the Northern territories became the three principal subdivisions of the Gold Coast.

Colonial Economy

- The wealth of the economy was mainly based on Cocoa since the first cocoa bean was planted in 1879
- The principal export of the colony was cocoa and gold second. The values of which fluctuated and continue to fluctuate
- The colony also thrived on hardwood timbers and mineral deposits

Gold Coast Exports

	Total Value of Exports	Percent of Exports		
		Cocoa	Gold	Other minerals and timber
Pre-war				
1928	14	82	5	10
1934	8	51	30	16
Post-War				
1946	22	54	25	19
1951	89	67	10	21

Courtesy:
www.carlprosper4nugs.yolasite.com

Colonial Economy

- From October 1947, cocoa was marketed through the Gold Coast Cocoa marketing Board
- At the beginning of each season, the price to the farmer is fixed for the whole season and the difference between the export proceeds and amounts paid to farmers was paid to the board's reserves
- These reserves were mainly used for price stabilization, rehabilitation of the cocoa industry, local development in cocoa areas and as a grant to the University

Colonial Economy

- Timber: The cutting of timber and its exports increase from the 1930s and by 1950 output amounted to 18 million cubic feet of which over 14 million were exported
- Minerals:
  - Gold which had first attracted the Europeans was a major foreign exchange earner
  - the mining of manganese and diamonds started after the first world war. By 1957, the Gold Coast was the leading exporter of manganese

Post- Independence

Post Independence

- At independence Ghana had substantial physical and social infrastructure and $481 million in foreign reserves
- Ghana also had the advantage of natural resources: Cocoa, Gold and Mineral Deposits
- In the 1960s it was a middle income country with per capita GDP of $490 comparable to South Korea and Mexico

Post Independence

- The advantage of human capital:
  - More schools and hospitals per capita than any other British territory in SSA
  - Distinguished history of higher education

First Republic

- Independence saw Ghana being transformed into the first socialist regime in twentieth-century Africa. Ghana's first president, Kwame Nkrumah laid ambitious plans for rapid industrialization and development

First Republic

- Nkrumah instituted a Big-Push strategy under a socialist framework
  - Several industries were set up as State Owned Enterprises to produce import- substitutes
- The government developed infrastructure, education and other major public investments in the industrial sector. Construction of the Akosombo Dam which was to become very significant in later years was completed in 1966

First Republic

- Cocoa prices however crashed and with prices falling and foreign reserves being depleted the government had to use supplier credits to finance projects
- By mid-1960s the reserves were depleted
- As the Nkrumah Government's plans unraveled, military officers seized control of the country and promised to reverse the declining fortunes of the country

NLC –first military regime

- To rationalize, the NLC abandoned unprofitable projects
- Some inefficient enterprises were sold to private investors.
- Foreign donors now provided import loans to enable the foreign exchange-strapped government to import essential commodities
-

Second Republic

- expulsion of large numbers of noncitizens from the country and a companion measure to limit foreign involvement in small businesses.
- devaluation of the national currency
- encouragement of foreign investment in the industrial sector

NRC, SMC I & II

- After the Busia government was overthrown by the NRC under General Acheampong the government undertook a program of self-reliance. The NRC abrogated on paying debts it had inherited (*yentua* policy).
- Creditors rejected this unilateral action and in 1974, an agreement to reschedule the debt on liberal terms was reached.

NRC, SMC I & II

- The post 1978 military regime led by General Akuffo tried to deal with the economic problems by restraining government spending and monetary growth.

3rd Republic

- In 1979, the civilian government of Dr. Hilla Limann inherited shortages of imported and locally produced goods, high inflation, huge budget deficits and high unemployment

3rd Republic

- To reverse the situation, the Limann government announced another 2-year reconstruction program emphasizing increased exports and food production. However, declining cocoa production combined with falling cocoa prices and soaring oil prices undermined the reconstruction.

Post 1980

- When the Limann government was overthrown, cocoa output had fallen drastically and its world price was now one-third of the 1975 level. On the other hand, the import bill was bloated with high oil imports and inflation remained high. Industry ran at about 10% of capacity due to chronic shortage of foreign exchange to cover the importation of required raw materials and replacement parts

Post 1980

- Economic conditions deteriorated further with droughts in 1982-3 with associated near famine. In addition, Nigeria expelled about 1 million Ghanaians who suddenly had to be absorbed into the Ghanaian economy.
- In effect, Ghana faced dramatic economic decline with negative growth rates, hyperinflation, food shortages and unemployment from the mid 70s to the early 1980s

1980 - 1983

- By early 1980s, military and civilian officials had failed to revive the economy
- 1983 saw the PNDC government turn to the International financial institutions for assistance and this ushered in the period of restructuring of the economy
- During this period, the World Bank and the IMF were proposing radical programs for African Economies to revive troubled economies and to restore their productivity.

Causes of Decline

- Excess Demand
  - Before independence, government expenditure was capped at 10% of GDP by the colonial administration
  - Nkrumah removed this cap and instituted high spending with the Big Push Strategy- pushing the budget deficit to over 6% of GDP
  - With high spending and a loose monetary policy, inflation exceeded 20%
  - Government borrowing from the banking sector fueled excess money supply and with supply rigidities, pushed up inflation

Causes of Decline

- Excess lending and inflation also discouraged investments
- Some economists argue that this precedent continued for over 4 decades with high inflation hindering long term economic growth

- Currency Overvaluation
  - Despite domestic inflation, currency remained overvalued thereby reducing export competitiveness

Causes of Decline

- The overvalued currency hurt the important cocoa industry
- On the other hand the currency overvaluation made imports attractive and to control this import licensing was instituted to protect domestic industries. These licenses favoured producers licenses to consumer products leading to shortages

Causes of Decline

- Import licenses also became subjected to corruption – prospective licensees often bribed for official favours
- From 1983 to 1986 the cedi was devalued from 2.75 per dollar to 160 per US dollar

Causes of Decline

- Excessive Foreign dependence:
  - Skyrocketing foreign debt service. By the end of 1965, the amount of outstanding commercial debt reached 110 million pounds with Western countries and 29 million pounds with the Soviet Union and Eastern Europe
- Ineffective policies of comparative advantage/cocoa production and mineral extraction

Causes of Decline

  - Ironically, the two most promising natural resources suffered the most neglect and difficulties. During the Nkrumah regime, the coca and mineral/gold extraction industries remained under utilized
- Over-extended involvement of the State: State owned enterprises and rent seeking
  - SOEs governed by an alliance of party activists and supporters led to patronage

Causes of Decline

- Financial Sector inhibitions: Failures of the banking system
- Political pressures to accelerate development
- Excessive centralization of political authority
- Long term effects of colonial model