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Ghana's Historical Economic Template of Failure

Michael Nii Yarboi Annan

INTRODUCTION

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Keywords: NA

Classification: LCC Code: HC1065

Language: English



Great Britain
Journals Press

LJP Copyright ID: 573313
Print ISSN: 2515-5784
Online ISSN: 2515-5792

London Journal of Research in Humanities & Social Science

Volume 25 | Issue 2 | Compilation 1.0



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I. INTRODUCTION

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I believe as people, we have failed to understand the challenges confronting us due to our inability to appreciate our local economy and where we belong in the global economy. More degrading, the Ghanaian is unaware of the burden of economic hardship they have endured, or the evil Governments have perpetuated on them. It is time to demand solutions that will pave way to reduce the burden of economic hardship our people face, to develop hope in themselves, to compete fairly on the global-stage and to win by the same level of gratification enjoyed by other nationals.

Until we appreciate the reason why our economy keeps failing with a currency unable to store value over time, misplaced fiscal and monetary policies landing us in unsustainable debt, leading us into a parallel tax regime that kills entrepreneurship and weakens our financial sector unable to support production; we will forever change governments but we shall fail on the economic front every six-years. Why has debt engulfed us, and we cannot find fiscal space to take on production, build new orientation and compete on the world market as equals? These are the questions I expect our people to ask those who seeks to lead us. And if the people are unable to adequately ask those that seeks t leadership our

journalism should be able to ask the right questions for the people.

Our Nation bleeds, yet none is prepared to stop the economic bleeding that helps the few and subject the majority to untold hardship. I am highly disappointed; our national conversation is not about the economy and how we will get it back to life but policies that will end up demanding debt for us to be able to implement same. Those in power do not bring back lives and have failed to bring back the economy as they promised and those wanting to come to power are too careful to mention a comprehensive programme that has no coordination with the current International Monetary Fund (IMF) programme under implementation.

What I look to do with this article is to bring the economic conversation back to where it belongs and get us to understand the background of our economic failures and what we can change or do right to bring back life into this economy for the prosperity of the majority.

II. HISTORICAL ECONOMIC TEMPLATED

The human brain is powerful and when things are printed on it, it is difficult to erase and reprint a new orientation and concept of how things should be and not what we use to do. The challenges we face today did not start with the present Government but at the start of Ghana in 1957. The failure of the present Government is due to the decisions to conforms with the historical economic templated of managing Ghana.

Our first President Dr. Kwame Nkrumah set out to industrialised Ghana between 1957 and 1969. I have always kept, he is a wholistic developer but a bad businessman and since then all our Presidents have been bad businessmen. Ghana's agricultural sector employs over 80% of our workforce and its contribution to GDP was 60%.

Our President then needed to understand that industrialisation begun from the farmlands, and it is not right to use 80% of your workforce to produce 60% of GDP whether skilled or unskilled. This can be described as under-performance of our labour force, using more assets to produce less goods and services.

Without coming to this realisation, we took on the project to industrialised Ghana with no targeted policy to develop our agriculture to feed our industries all year round. And before we realised our newly built industries needed to depend on imported raw materials and semi-finished raw materials. Now our attempt to industrialised Ghana to make us self- sufficient also ended us being import dependants thus the need for foreign exchange to facilitate trade.

What we did not realise in the past has become a historical template for almost 6 decades. The cocoa sector for example, around 1957 employs 17% of Ghana's work force and only produces 8% of GDP which is our major foreign exchange earner. In modern Ghana with over 30million population, the cocoa sector employs 17% of our working population and its contribution to GDP is 3.5%. What this means is, the Ghanaian leadership for over 60 years have failed to realise what must be done to change that historical template which ended us in unsustainable debts, Inefficiency.

Our efforts towards industrialisation and Dr. Kwame Nkrumah's vision to see Ghana manage its own affairs, got him to accelerate the industrialisation projects that dictated the pace of debt accumulation, especially our foreign debts. It was not wrong to industrialised and to substitute imports with our own production; what went wrong is our inability to concentrate on our strength, build more capabilities within our strength and develop new orientation within those capabilities.

Ghana's external debt rose sharply from nothing in 1957 to over US\$500 million by 1960 and in 1965 Ghana fell into a debt repayment crisis which had to be resolved through debt restructuring agreement in 1966,1968 and 1970.

Our first re-negotiation of our debt occurred in 1966 which involved an informal convening of all our creditors to investigate the debtor's (Ghana) liabilities and liquid assets. A decision of what quantum of debt-relief must be extended to the debtor. Our over reliance on agriculture related manufacturing sector and our inability to produce the needed raw material for our industrialisation drive made us dependant on imported raw materials and by extension foreign credits and foreign currencies to the detriment of our economic health.

The above forms the basis of our historical economic templated for various governments to follow and I must say, government after government have done so marvellously well by following the failed economic management template religiously to date.

III. UNSUSTAINABLE DEBT CRISIS

We needed to understand Ghana's debt challenges thoroughly to effectively manage debt going-forward. Every nation will buy debt locally and on the international capital market for several reasons justifiably or not. Most debt acquired in the early post-independence where more of credits for plant, machinery and raw materials to feed the factories to produce – which is good but then, that requires that we need to generate enough foreign currencies to pay back suppliers' credits and not to depend on other commodity export to meet our obligations which were not linked to the investments for which reason we borrowed.

I am not interested in the political happenings of those years in my analysis of what went wrong. What we need as a nation is to have honest conversation of what we never understood but got involve with and handled it poorly. Let us end the blame game of which regime mess us up economically; the ones here, taking on the pain of our economic failures are you and me.

Every company or a nation, will generate income and will incur expenses in generating the income. The excess income you generate over your expenses allows you to create assets (cash, plant,

properties, equipment, and advances) and the opposite will occur if you spend more than the income you generate; then, you have to sell off your assets to pay for the losses or deficits. If your assets are depleted or you do not have enough assets to sell then you will have to borrow (credit, debt, and equity) to pay for the excess expenditure over income.

Therefore, if Ghana was taking on credits to invest into production then, I assume, that

production will generate cash enough to pay for the credits over a certain period and in the instance the credits weren't locally procured but foreign in nature then, the production must be capable of generating enough foreign currencies to pay back the credits. This is where we got it wrong, and we are still struggling with. It suffices to say, if you take on more foreign credit you must produce to generate more foreign currencies; your inability to do as such will make you unsustainable in debt management.

Table 1: Ghana's Fiscal Policy

CENTRAL GOVERNMENT FINANCING								
	1958 ¢'million	1959 ¢'million	1960 ¢'million	1961 ¢'million	1962 ¢'million	1963 ¢'million	1964 ¢'million	1965 ¢'million
Revenue	152.5	157.8	164.0	178.7	189.3	210.1	246.0	340.8
Current Expenditure	101.8	115.1	140.7	167.0	177.9	202.2	234.1	263.7
Capital Expenditure	35.8	53.2	106.3	117.5	129.1	135.7	170.4	170.4
Total Expenditure	137.6	168.3	247.0	284.5	307.0	337.9	404.5	434.1
Surplus/(Deficit)	14.9	-10.5	-83.0	-105.8	-117.7	-127.8	-158.5	-93.3

From 1958 to 1960 the total deficit created by government own fiscal policy is ¢78.6million which was financed by drawing down of central government financial assets by reducing our accumulated cash and the sale of foreign securities to finance the deficits. Internal borrowing was not significant until 1961 and prior to that surplus from the Cocoa Marketing Board was relied upon to finance deficit.

Table 1. is to demonstrate what I had described earlier; if you are unable to generate excess income over expenditure then you will have to sell off your assets to pay for your credit or debts until there is no assets then, you will have to borrow to pay your debt and finance your appetite of spending. This is what had happened with our economic management.

Our fiscal policy was spot on to have set up more manufacturing industries which led to the rise of import of raw materials and semi-finished

materials which was second to capital goods. I can confidently say until our industrialisation drive is linked to our agriculture and its ability to produce sufficiently for industrial use, all agenda to industrialised Ghana will fail. With all the investment made into manufacturing our export earnings did not increase significantly until 1960 and even then, our export stagnated while imports were on the rise leaving us with deficit on our current account and a depleted financial asset to close the gap.

At this point Ghana has successfully managed to create a historical economic template of managing our economy. By taking on industrialisation decoupled from our agriculture, firmly hinged on imported raw materials and unable to push up export and rake in more foreign exchange from the international market. Our production grew credits faster than it grew export; and to meet our obligations we needed to rely on foreign loans and disbursements to close

the gap thus unsustainable borrowing which eventually led to unsustainable debt.

IV. THE ECONOMIC LIBERATORS

Then came the various 'liberators' from 1966 to 1981 promising a solution with a 'firm support' from the IMF, World Bank, United States of America, Canada, West Germany, and Britain. In 1966 these nations and institutions did advance to Ghana ₦19.0 million, an amount not sufficient to address the economic challenges. The challenge was the current payment and servicing of external medium-term debt (1 – 12 years of maturity) like the situation we have now in the year 2024. By the second half of 1966 Ghana had

suspended debt servicing and in June 1966 some 14 creditor countries (today called the Paris Club) had met in London to deliberate on the suspension of debt servicing by Ghana. In December 1966 Ghana and the Paris Club had reached an understanding to have its external medium-term debt rescheduled.

Ghana then was seeking to reschedule some ₦145.0 million to be stretched over a 13- years period beginning repayment from 1971. Promising a departure from the past template and fixing unsustainable borrowing Ghana will tighten fiscal policy and Table 2. depicts what was achieved by our 'economic liberators'.

Table 2: Ghana's Fiscal Policy

Central Government Financing			
	Total Revenue (₦'million)	Total Expenditure (₦'million)	Fiscal Balance (₦'million)
1970	437	435	2
1971	450	461	-11
1972	419	505	-86
1973	444	553	-109
1974	652	843	-191
1975	815	1,439	-624
1976	1,075	1,868	-793
1977	1,539	2,677	-1,138
1978	2,186	3,625	-1,439
1979	3,015	4,597	-1,582
1980	3,264	6,066	-2,802
1981	4,539	9,847	-5,308
1982	4,643	10,132	-5,489
1983	10,241	15,175	-4,934
1984	22,641	27,485	-4,844
1985	40,311	47,891	-7,580
1986	73,625	73,326	299
1987	111,046	106,987	4,059
1988	153,791	149,880	3,911
1989	214,513	204,161	10,352

After the mission's programme proposed and agreed by Ghana with all the pain this nation had to go through to stabilise the economy and propel growth, by 1971 our economic challenges had return in full gear. Between 1966 and 1969 this nation had to make a choice of discontinuing programs and projects while keeping facilities and assets which can achieve the needed growth as suggested by the economic handlers.

The question is – why were the economic challenges back at us repeatedly?

V. CURRENCY MISMANAGEMENT

Ghana was a member of the Sterling area which means our currency prior to 1965 was the West African Pound Sterling which was changed to the Cedis but remained pegged to the Pounds Sterling. In 1965 the conversion rate of ₦1 = \$1.67, which meant that you needed \$0.60 to obtain ₦1. After the overthrown of President Nkrumah in February 1966 a new currency was introduced called the New Cedis and for every ₦1.20 you will receive N₵1.00; a 20% devaluation of our currency and US\$1 = N₵0.71. Again, in July 1967 the New Cedis was devalued and the following exchange conversion was applicable, N₵1 can only purchase US\$0.98 (US\$1 = N₵1.02).

By November 1971 Bank of Ghana announced that the New Cedis will no longer be pegged to the Pound Sterling but to the US Dollars at N₵1 = \$0.98. And by December 1971 the New Cedis was devalued with the new rate of exchange being N₵1 = \$0.55 (US\$1 = N₵1.82). Within a period of two-months the New Cedis had depreciated by 43.9% after it was pegged with the US Dollars. Subsequent to this was several devaluations but the only time the Cedi appreciated against the US Dollar was in 1973 when the Acheampong administration decided to pegged the New Cedi value to Gold with the following applicable rate N₵1 = US\$0.87 (US\$1 = N₵1.15)

The management of our currency is vital to the health of our economy. Ghanaians accepted a burden-share by losing 20% of their savings in a bid to solve our economic challenges in 1965 but the only time we saw the Cedi appreciate against the US Dollar was in 1973 when the Cedis was

pegged to Gold and yet we have failed to understand how strategic gold can be used to protect the value in the Ghanaian Cedi.

In 2006 – 2007 the John Agyekum Kufour's government embarked on redenomination of our currency with the popular adage "The value is the same"; yes the value did not change but our sense of value changed. The Ghanaian all of the sudden had believed the Ghanaian Cedi was higher than the US Dollar because the rate of exchange became US\$1 = GH₵0.916. What we forgot was what the GH₵0.916 did represent which used to be ₦9,160.00. Ten Thousand Cedis had become which was two Five Thousand noted had become the small silver coin called GH₵1.00.

This certainly was not the same as the 1971 appreciation of the New Cedi which was hinged on Gold against the US Dollar yet Ghanaians found confidence in new currency sagaciously perceived it has of the same value with the Dollar.

VI. FISCAL RECKLESSNESS

Government policy and programs have directed fiscal policy largely in this country. After the overthrow of President Kwame Nkrumah, the then military government main criticism of his government was the fact that his industrial expansion was unsustainable and the reason for the country unsustainable debts and therefore fiscal policy was about discontinuing some vital projects. This has been the template of fiscal policy since the overthrow of our first President. Criticise the governments projects and investments, win power and discontinue the projects of your predecessor and commence your own program by which are often front loaded. Our fiscal policy has never been about investment analysis of what the program or project cost and benefits is.

A look at Table 1 and 2 gives an indication of what I have just described. In 1965 our fiscal deficit had grown to the region of Hundred million of Cedis. Then followed the military takeover and the discontinuation of project with structural adjustments programs. By 1971 we looked good with Two million Cedis surplus and as usual by

1974 we found ourselves back at the Hundred million Cedis deficits levels.

Again, our historical template of fiscal policy has been structured along the oratory of campaigning for power and not on a sound, well informed research that can find space within the Ghanaian natural economic structure to drive sustainable growth.

I challenge each reader to review the various manifestos of our main Political Parties since the beginning of the 4th Republic and you will agree with me; beautiful policy proposal yet none have satisfied the finance requirements of these policies thus, they get into office and turn to debts to finance these policies, our recklessness.

VII. UNSUSTAINABLE BORROWING

What philosophy supports borrowing in Ghanaian or better said our government? Do we look at the benefit the debt will bring or we borrow looking at the returns of the debt over a period of time; and if those returns are capable of paying back the debt.

What is Ghana's Debt Doctrine?

When do we borrow; from whom do we borrow; what must necessitate borrowing and at what cost are vital questions a debt doctrine must provide us with direction and guide us into the complex future of capital dominance and fiscal discipline. We must come to terms with the fact that it is not about good or bad cholesterol, rather what level of cholesterol is good for the body for one to remain healthy.

In considering a debt doctrine a clear distinction must be made between external debt and local debt. External debts will come in with the currency of the country we are borrowing from and when it is time to pay back, we must look for that same currency to pay back the loan; unlike the local borrowing which requires the Ghanaian cedis to pay back.

On this note the vital question to ask is how are we able to generate adequate local currency and foreign currencies to pay back what we borrowed and how much is enough. We collect taxes in the local currencies and therefore that portion of debt

in local currencies can be taken care of with the tax revenues government raises through imposition of taxes on production, service and consumption. Government will encourage production and manufacturing that ends up being exported to rack-in foreign currencies and when that is not enough to take care of our needs we borrow to pay back our debts and to have enough foreign currencies to satisfy our import requirements.

We are not guided by any doctrine while we pursue infrastructure and human capital development hoping it will turn-around quickly to produce more returns for us to be able to generate local and foreign currencies enough to keep as going. In most times and for this nation within 6 – 8 year the storm will hit and our anchor ends up not holding.

Let us take a closer look at the early years of post-independence borrowings and the purpose of which we borrowed:

- £349,900 loan for buses (1959 – 1965)
- £732,600 loan for bused (1959 – 1966)
- F36,673,500 loan for ships (1960 – 1971)
- £1,361,152.10 loan for Viscount aircraft (1960 – 1966)
- £1,964,844 loan for Tema power station (1960 – 1968)
- £1,765,075 loan for Britannia aircraft (1960 – 1965)
- £2,449,260 loan for Ilyushin aircraft (1960 – 1969)
- \$40,000,000 loan from USSR Govt (1960 – 1977)
- £7,500,000 revolving credit from Govt. of Isreal (1958)

The above loans cost us between 2% to 6% p.a. and when translated to US Dollars sum up to a total of \$73.1 million using an exchange rate of £G1 = \$2.8. This did not end here as there were additional loans added to the debt stock in 1961

- £5,640,000 loan for V.C. 10 aircraft (1961 – 1971)
- £1,224,630 loan for Ilyushin aircraft (1961 – 1969)

- £747,337 loan from Export GMPH Berlin for polygraph (1961 – 1968)

The above loans secured in 1961 added an additional \$21.3million to our debt stock and it was not supposed to end there as there were other loans under discussion in 1961; let us take a look at that as well.

- £G35,000,000 equivalent Volta River Project loan
- \$9,600,000 for Boeing aircraft
- £2,627,000 for sugar mill equipment from Netherlands consortium
- £1,800,000 from Yugoslavia for factory
- £5,000,000 from Hungary for factory
- £5,000,000 from Czechoslovakia for factory
- £5,000,000 from Poland for factory

Source: IBRD

Loans under discussion in 1961 when secured will add another \$161.4million to our debt stock. Considering all the above loans, debt amortisation and servicing in 1961 stood at £G1.1million and by 1964 sharply jump to £G7.3million that represents 563.6% increase in foreign debt servicing. This position had worsened by 1968 when debt amortisation and servicing had further jump to £G10.3million.

The above position had significantly improved from 1969 with external debt servicing plummeting from £G10.3million to £G3.8million not because we generated more foreign currencies to pay-back our debts nor we managed our currency better but as a results of debt rescheduling; nothing different from what we are experiencing today with debt; if we should analyse debt acquired in the last decade – the template never changed.

I can describe our debt doctrine as a reckless doctrine not base on our ability to generate enough foreign currencies to pay-back but rather it's a doctrine base on seeing massive infrastructure that appeals for praises from the people without measuring its returns over the life of the investment.

VIII. GOVERNMENT REVENUE MEASURES (TAXES)

Collecting taxes is by far the only main means for a nation to generate revenues to finance infrastructure developments, investments in human capital, provision of services for the people and unnatural persons such as businesses and institutions of state.

How much taxes are enough for a government to collect from its people and unnatural persons? The World Bank has set a level of 15% of GDP to be collected if that nation must remain viable. More than 80% of low-income countries are below the 15% of GDP threshold. That can be translated to mean more than 80% of low-income countries are not viable; meaning their economy is not growing, they are unable to improve the standard of living of their people, and unable to generate enough currency to pay back their debts.

As a nation with a central government and on a daily basis investment decision will be taken which government will have to spend to ensure its implementation. The money to be spent must be provided from government own resources or borrowed from other sources. That investment must be able to pay for itself so government can return what they took from their own resources or pay-back the loan they borrowed; both comes with cost that has to be paid.

The template post-independence as always been to justify the investment without demonstrating the ability of the investment to generate enough returns to pay for itself thus, we approach paying back and always run into difficulties then the imposition of taxes.

In 1959/60 the Ghana's ordinary and extraordinary receipts (revenues) was £G69.6 million whiles expenditure stood at £G84.8 million posting a budget deficit of £G15.2 million which was mainly financed by loan from the Cocoa Marketing Board. We were growing expenditure faster than we growth of revenue and when it was clear that we were running into difficulties the response was more taxes and in 1961 saw the imposition of Compulsory Savings Act, 1961 (Act 70). In 1964 we had run into

another fiscal difficulties and there again we impose the Sales Tax Act, 1965 (Act 257). The question is why must we run into difficulties before we impose taxes to ensure we are collecting enough taxes to make us viable as an economy.

We can talk about the period of structural adjustment and the need to implement the VAT Act in the 90s which was meant with a lot of protest and the loss of lives and to this present day when we hit fiscal difficulties as a result the various Levies imposed on the people.

I should assume that while we keep taking investment decisions to grow expenditure at a faster rate, we failed to appreciate that revenue must equally grow at a similar rate to ensure adequate availability of financial resources to meet our obligations and the fall due.

IX. CONCLUSION

In conclusion I will say our ways of managing the present economy has a sharp resemblance of how it was managed in the past thus the results of today are similar to the results achieved in the past.

We must depart from the historical template of economic management lest we fail miserably just like the past failed no matter who we put in charge of the administration of this beautiful and lovely nation called Ghana.

We need to come together as a nation to change the historical template of economic management to a more productive template.