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CHAPTER I

Introduction

"At long last the battle has ended!...
Ghana is Free Forever!"
Kwame Nkrumah, 6 March, 1957.¹

Ghana was independent. A society whose roots lay in the powerful Negro empires of the Sudanic civilization that had flourished from the time of Europe's Dark Ages through the early twentieth century, was now launched as a modern state, the first black African country to do so. In terms of modern Western criteria, Ghana had a promising start as one of the richest, most successful and politically mature regions of black Africa. Per capita income was reportedly the highest, real growth was satisfactory, sterling reserves substantial, and development plans were well formulated.

The new Ghana was again an empire with sovereignty over many traditional kingdoms.² But the new state retained the European socioeconomic institutions and system of organization that had been built up over the previous decades as a colony. The colonial system was well designed to facilitate intervention by the central political state in social and economic affairs for the further transformation of society. And it was put to work to achieve that end. Prime Minister Nkrumah became President (1960), and his party became the sole party (1964). Economic planning, state enterprises, foreign exchange licencing and control, and internal price controls were employed. However, a national consensus about the rules of the game, both politically and economically, was not reached. President Nkrumah's system was rejected by a military *coup* in early 1966.

The National Liberation Council (NLC) government formed by the military was committed to the re-establishment of a relatively free political and

1. From his speech on the moment of independence, quoted in his *I Speak of Freedom*, Praeger, New York, 1961, pp. 106-107.
2. The ancient empire of Ghana was one of the early Sudanic empires, physically located in present-day Mali. J.B. Danquah was largely responsible for the hypothesis of a connection between the largest present-day language group in Ghana, the Akans, and the ancient Ghana. His work on this began in the late 1920's and 1930's, and when the time came to choose a name for the independent Gold Coast colony, his choice was adopted. He sets out his views in "The Akan Claim to Origin from Ghana," *West African Review*, Vol. XXVI, Nov. and Dec., 1955, pp. 963-70 and 1107-11.

economic system. In 1969, at the end of a brief period of three years, it turned the reins of government over to a freely elected civilian Parliament led by Prime Minister Busia. In the meantime the NLC had begun to relax the economic controls. The Busia government pushed forward with the liberalization of the economic system, but failed to solve a serious balance of payments problem that accompanied it. In a little over two years, on January 13, 1972, the experiments of civilian government and economic liberalization ended in another military coup.

Now, some fifteen years after the self-confident declarations of independence day, there was a sense of uncertainty about just what the political and economic system of Ghana should be. While the system was open to question, the capacity of Ghana to find its own way was not. Most observers would argue, as Danquah had elegantly asserted a decade earlier,

'All my life I have pinned my faith in the Ghanaian, that he is sensible and is capable of thinking as a human being. I do not wish to lose my faith in Ghana! Ma, God help my faith.'³

This book concerns an important part of the economic experimentation undertaken during those first fifteen years of independence — the system of exchange control and the attempted liberalization. To illuminate in as much detail as possible its workings and effects, we confine our attention almost entirely to the control system.⁴ We begin with a review of the evolution of the restrictive system (Chapter II) in which we examine the workings of the instruments brought to bear on the foreign sector. The restrictive regime affected the Ghanaian economy in two major ways: resource allocation and growth. In Chapter III we consider the allocative effects, using a variety of indicators, including our detailed estimates of effective rates of protection for the industrial sector. Then, in Chapter IV we consider the growth effects, paying particular attention to the capital market and input intensities. In the short span of five years the control system was discredited, and Ghana attempted to extricate herself from it with a gradual liberalization. Chapter V

3. J.B. Danquah, January 1, 1963, quoted in *Danquah — An Immortal of Ghana*, compiled by the Danquah Funeral Committee, Geo. Boakie Publishing Co., Accra, 1968. Danquah, "The Doyen of Ghanaian Politics," spoke these words six months after his release from his penultimate detention, only two years before his death while under Nkrumah's detention again.

4. We do so at the cost of providing too much detail and too narrow a focus for the reader interested in a broader survey of the Ghanaian economy. One such survey already exists, in W. Birmingham, I. Neustadt, and E.N. Omaboe, eds., *A Study of Contemporary Ghana*, Vol. 1, *The Economy of Ghana*, Northwestern University Press, Evanston, 1966, largely containing the careful research of Tony Killick and Robert Szreszczewski; some more up-to-date surveys are in preparation.

deals with the attempted liberalization, beginning with a detailed consideration of the first step, devaluation, and followed by a review of the nature, timing, and magnitude of the steps taken to liberalize the system. Finally, in Chapter VI we bring together the major conclusions we have drawn from the study.