

This PDF is a selection from an out-of-print volume from the National Bureau of Economic Research

Volume Title: Foreign Trade Regimes and Economic Development: Ghana

Volume Author/Editor: J. Clark Leith

Volume Publisher: NBER

Volume ISBN: 0-87014-502-9

Volume URL: <http://www.nber.org/books/leit74-1>

Publication Date: 1974

Chapter Title: Front matter to "Foreign Trade Regimes and Economic Development: Ghana"

Chapter Author: J. Clark Leith

Chapter URL: <http://www.nber.org/chapters/c4117>

Chapter pages in book: (p. -21 - 0)

# **Foreign Trade Regimes and Economic Development:**

*A Special Conference Series  
on Foreign Trade Regimes  
and Economic Development*

VOLUME II



NATIONAL BUREAU OF ECONOMIC RESEARCH  
*New York 1974*

**Foreign Trade Regimes  
and Economic Development:  
GHANA**

# **G H A N A**

*by* **J. Clark Leith**

UNIVERSITY OF WESTERN ONTARIO

DISTRIBUTED BY Columbia University Press  
*New York and London*

NATIONAL BUREAU OF ECONOMIC RESEARCH

*A Special Conference Series on Foreign Trade Regimes  
and Economic Development*

Library of Congress Card Number: 74-77690  
ISBN for the series: 0-87014-500-2  
ISBN for this volume: 0-87014-502-9

Printed in the United States of America

# NATIONAL BUREAU OF ECONOMIC RESEARCH

## OFFICERS

Arthur F. Burns, *Honorary Chairman*  
Walter W. Heller, *Chairman*  
J. Wilson Newman, *Vice Chairman*  
John R. Meyer, *President*  
Thomas D. Flynn, *Treasurer*  
Douglas H. Eldridge, *Vice President-Executive Secretary*

Victor R. Fuchs, *Vice President-Research: Co-director NBER-West*  
Edwin Kuh, *Director, Computer Research Center*  
Hal B. Lary, *Vice President-Research*  
Robert E. Lipsey, *Vice President-Research*  
Sherman J. Maisel, *Co-director NBER-West*  
Geoffrey H. Moore, *Vice President-Research*  
Edward K. Smith, *Vice President*

## DIRECTORS AT LARGE

Atherton Bean, *International Multifoods Corporation*  
Arthur F. Burns, *Board of Governors of the Federal Reserve System*  
Wallace J. Campbell, *Foundation for Cooperative Housing*  
Erwin D. Canham, *Christian Science Monitor*  
Emilio G. Collado, *Exxon Corporation*  
Solomon Fabricant, *New York University*  
Eugene P. Foley, *Montrose Securities, Inc.*  
David L. Grove, *International Business Machines Corporation*  
Walter W. Heller, *University of Minnesota*  
Vivian W. Henderson, *Clark College*  
John R. Meyer, *Harvard University*  
J. Irwin Miller, *Cummins Engine Company, Inc.*

Geoffrey H. Moore, *National Bureau of Economic Research*  
J. Wilson Newman, *Dun & Bradstreet, Inc.*  
James J. O'Leary, *United States Trust Company of New York*  
Alice M. Rivlin, *Brookings Institution*  
Robert V. Roosa, *Brown Brothers Harriman & Co.*  
Eli Shapiro, *The Travelers Corporation*  
Boris Shishkin, *Washington, D.C.*  
Arnold M. Soloway, *Jamaicaway Tower, Boston, Massachusetts*  
Lazare Teper, *International Ladies' Garment Workers' Union*  
Theodore O. Yntema, *Oakland University*

## DIRECTORS BY UNIVERSITY APPOINTMENT

Moses Abramovitz, *Stanford*  
Gardner Ackley, *Michigan*  
Charles H. Berry, *Princeton*  
Francis M. Boddy, *Minnesota*  
Otto Eckstein, *Harvard*  
Walter D. Fisher, *Northwestern*  
R. A. Gordon, *California*  
Robert J. Lampman, *Wisconsin*

Maurice W. Lee, *North Carolina*  
Almarin Phillips, *Pennsylvania*  
Lloyd G. Reynolds, *Yale*  
Robert M. Solow, *Massachusetts Institute of Technology*  
Henri Theil, *Chicago*  
William S. Vickrey, *Columbia*  
Thomas A. Wilson, *Toronto*

## DIRECTORS BY APPOINTMENT OF OTHER ORGANIZATIONS

Eugene A. Birnbaum, *American Management Association*  
Thomas D. Flynn, *American Institute of Certified Public Accountants*  
Nathaniel Goldfinger, *American Federation of Labor and Congress of Industrial Organizations*  
Harold G. Halcrow, *American Agricultural Economics Association*

Walter E. Hoadley, *American Finance Association*  
Philip M. Klutznick, *Committee for Economic Development*  
Roy E. Moor, *National Association of Business Economists*  
Douglass C. North, *Economic History Association*  
Willard L. Thorp, *American Economic Association*  
W. Allen Wallis, *American Statistical Association*  
Robert M. Will, *Canadian Economics Association*

## DIRECTORS EMERITI

Percival F. Brundage  
Frank W. Fetter  
Gottfried Haberler

Albert J. Hettinger, Jr.  
George B. Roberts

Murray Shields  
Joseph H. Willits

## SENIOR RESEARCH STAFF

Gary S. Becker  
Charlotte Boschan  
Phillip Cagan  
Stanley Diller  
Solomon Fabricant  
Milton Friedman  
Gary Fromm  
Victor R. Fuchs  
J. Royce Ginn

Raymond W. Goldsmith  
Michael Gort  
Michael Grossman  
F. Thomas Juster  
John F. Kain  
John W. Kendrick  
Irving B. Kravis  
Edwin Kuh  
William M. Landes

Hal B. Lary  
Robert E. Lipsey  
Sherman J. Maisel  
Benoit B. Mandelbrot  
John R. Meyer  
Robert T. Michael  
Jacob Mincer  
Ilse Mintz  
Geoffrey H. Moore

M. Ishaq Nadiri  
Nancy Ruggles  
Richard Ruggles  
Anna J. Schwartz  
Robert P. Shay  
Edward K. Smith  
George J. Stigler  
Victor Zarnowitz

*Relation of the Directors of the National Bureau to  
Publication of the Country Studies in the Series on  
Foreign Trade Regimes and Economic Development*

The individual country studies have not passed through the National Bureau's normal procedures for review and approval of research reports by the Board of Directors. In view of the way in which these studies were planned and reviewed at successive working parties of authors and Co-Directors, the National Bureau's Executive Committee has approved their publication in a manner analogous to conference proceedings, which are exempted from the rules governing submission of manuscripts to, and critical review by, the Board of Directors. *It should therefore be understood that the views expressed herein are those of the authors only and do not necessarily reflect those of the National Bureau or its Board of Directors.*

The syntheses volumes in the series, prepared by the Co-Directors of the project, are subject to the normal procedures for review and approval by the Directors of the National Bureau.

# Contents

Tables	ix
Figures	xii
Charts	xiii
Co-Directors' Foreword	xiv
Preface	xvii
Principal Dates and Historical Events in Ghana	xx
<b>Chapter I: Introduction</b>	<b>1</b>
<b>Chapter II: Evolution of the Restrictive System</b>	<b>4</b>
I. Introduction	4
II. Delineation of Phases	5
III. Taxes on Foreign Trade	8
IV. Financing of Foreign Trade	15
V. Quantitative Restrictions	18
VI. Aggregate Demand, Domestic Prices, and Trade	37
<b>Chapter III: Allocation of Resources</b>	<b>48</b>
I. The Changing Structure of Production, 1955–1969	48



II. Growth of the Industrial Sector	53
III. Protection of Industry	58
IV. Domestic Resource Costs in Manufacturing	77
<b>Chapter IV: Growth Factors</b>	<b>81</b>
I. Introduction	81
II. Savings and Investment Performance	82
III. Saving, Investing, and the Restrictive Regime	85
IV. Responses to the Control System	96
V. Concluding Remarks	108
<b>Chapter V: Liberalization</b>	<b>109</b>
I. The Devaluation Decision	109
II. Short-Run Effects of the Devaluation Package	112
III. The Medium-Term Effects of Devaluation	129
IV. The Import Liberalization Experience, 1967–1970	140
V. Import Liberalization—A Total Failure?	156
<b>Chapter VI: Concluding Remarks—Major Lessons of the Ghanaian Experience</b>	<b>163</b>
Appendix A: General Statistical Tables	165
Appendix B: Tariff Rates at Site 1-Digit Level	181
Appendix C: Formulas, Data, and Methods for Calculating Rates of Protection	184
Appendix D: Derivation of Production and Input Use Responses to Input Subsidies	193
Appendix E: Derivation of Formulas—Rate of Change in New Cedis Per Dollar of Tradeables	197
Appendix F.1: Definition of Concepts Used in the Project	203
F.2: Delineation of Phases Used in Tracing the Evolution of Exchange Control Regimes	205
F.3: Important Ghanaian Names and Abbreviations	207
Bibliography	208
Index	212

## Tables

II-1	Price Distortions Facing Total Imports and Corresponding Effective Exchange Rates, 1955 through 1969	11
II-2	Price Distortions Facing Taxed Exports and Total Exports, and Corresponding Effective Exchange Rates, 1955 through 1969	13
II-3	Commercial Bank Loans (Excluding Cocoa Financing) at Mid Year	16
II-4	Ghana's Foreign-Exchange Reserves by Holder, 1957 through 1964, Year End	22
II-5	Net Balances on Clearing Accounts, 1961 through 1969 at Year End	27
II-6	External Debt (Other than Private) as of February 23, 1966	29
II-7	Price Deflators of National Accounts Components (1960 = 100)	39
II-8	Price-Level-Deflated Effective Exchange Rates Facing Imports and Exports	42
II-9	Non-Cocoa Domestic Exports, Constant 1968-69 Prices, 1961-1970	43
III-1	Industrial Origin of GDP, 1955 and 1960 at Current Market Prices	50
III-2	GNP and Rough Estimates of Value-Added at Current Producer Prices in Selected Activities, 1955, 1960, 1965, 1969	51

III-3	Selected Industrial Statistics, 1958, 1962, and 1966–1969	54
III-4	Industrial Sector, Value-Added and Gross Output, 1958, 1959, and 1962–1968 at Current Prices	56
III-5	Protection of Ghanaian Industries, 1968 and 1970	69
III-6	Steel's Domestic Resource Cost Estimates 1967–1968	79
IV-1	Domestic Capital Formation and Related Macro Variables at Current Market Prices	83
IV-2	Gross Domestic Product, Gross Domestic Fixed Capital Formation	84
IV-3	GDP, Capital Stock, and Output/Capital Ratios	85
IV-4	Central Government Capital Account Payments: Loans to Public Enterprises, 1961–1969	92
IV-5	GDP Deflator Index, 1956–1969	93
IV-6	Externally Held Debt, 1968, 1969	94
IV-7	Selected Interest Rates in the UK and Ghana, 1960 to 1969	95
IV-8	Regression Results for Cobb-Douglas Production Functions Cross Section, 1968	100
IV-9	Implicit Industry Average Subsidy Rates on Imported Materials, 1968	102
IV-10	Responses of Output and Inputs to Assumed Subsidies on Capital and Imported Inputs	103
V-1	Transmission of 1967 Devaluation to Domestic Prices of Exports	117
V-2	Changes in Wholesale Prices of Importable Commodities for Resale Following 1967 Devaluation	121
V-3	National Consumer Price Index, Local Foods Component, and Total 1967	122
V-4	Gross Output and Value-Added in Industry at 1962 Prices	124
V-5	Central Government Financial Receipts, Payments and Deficits, Fiscal Years 1965–1969	126
V-6	Actual and Predicted Values of Non-Cocoa Exports and Imports After 1967 Devaluation	130
V-7	Exports of Cocoa and Cocoa Products, 1965–1970	136
V-8	Private and Official Capital Inflows, 1965–1968	137
V-9	Medium-Term Debt Schedules	139
V-10	Short-, Medium-, and Long-Term Debt Schedule	140
V-11	Open General Licence Imports, 1967–1970	145
V-12	OGL Imports Year Prior to Placing on OGL and Subsequent Years	158

## TABLES

xi

A-1	GNP and Population, 1956-1969	166
A-2	Price Indices, 1956-1971	167
A-3a	Balance of Payments, 1956-1971	168
A-3b	Foreign-Exchange Reserves, 1956-1970	171
A-4a	Commodity Composition of Trade, 1956-1970	173
A-4b	Geographic Composition of Trade, 1956-1969	177
A-5	Central Government Accounts, 1957/58-1969	179
B-1	Import Tariff Rates and Effective Exchange Rates Due to Tariffs Only by SITC 1-Digit Sections, 1955-1969	182

# Figures

III.1	Protection of Domestic Market	63
V.1	Foreign-Exchange Market	113
E.1	Devaluation and Domestic Market for Exportables	199
E.2	Devaluation and Domestic Market for Importables	202

# Charts

II.1	Key Economic Variables	6
II.2	Effective Exchange Rates and Trade	41

## **Co-Directors' Foreword**

This volume is one of a series resulting from the research project on Exchange Control, Liberalization, and Economic Development sponsored by the National Bureau of Economic Research, the name of the project having been subsequently broadened to Foreign Trade Regimes and Economic Development. Underlying the project was the belief by all participants that the phenomena of exchange control and liberalization in less developed countries require careful and detailed analysis within a sound theoretical framework, and that the effects of individual policies and restrictions cannot be analyzed without consideration of both the nature of their administration and the economic environment within which they are adopted as determined by the domestic economic policy and structure of the particular country.

The research has thus had three aspects: (1) development of an analytical framework for handling exchange control and liberalization; (2) within that framework, research on individual countries, undertaken independently by senior scholars; and (3) analysis of the results of these independent efforts with a view to identifying those empirical generalizations that appear to emerge from the experience of the countries studied.

The analytical framework developed in the first stage was extensively commented upon by those responsible for the research on individual countries, and was then revised to the satisfaction of all participants. That framework, serving as the common basis upon which the country studies were undertaken, is further reflected in the syntheses reporting on the third aspect of the research.

The analytical framework pinpointed these three principal areas of research which all participants undertook to analyze for their own countries.

Subject to a common focus on these three areas, each participant enjoyed maximum latitude to develop the analysis of his country's experience in the way he deemed appropriate. Comparison of the country volumes will indicate that this freedom was indeed utilized, and we believe that it has paid handsome dividends. The three areas singled out for in-depth analysis in the country studies are:

1. *The anatomy of exchange control*: The economic efficiency and distributional implications of alternative methods of exchange control in each country were to be examined and analyzed. Every method of exchange control differs analytically in its effects from every other. In each country study care has been taken to bring out the implications of the particular methods of control used. We consider it to be one of the major results of the project that these effects have been brought out systematically and clearly in analysis of the individual countries' experience.

2. *The liberalization episode*: Another major area for research was to be a detailed analysis of attempts to liberalize the payments regime. In the analytical framework, devaluation and liberalization were carefully distinguished, and concepts for quantifying the extent of devaluation and of liberalization were developed. It was hoped that careful analysis of individual devaluation and liberalization attempts, both successful and unsuccessful, would permit identification of the political and economic ingredients of an effective effort in that direction.

3. *Growth relationships*: Finally, the relationship of the exchange control regime to growth via static-efficiency and other factors was to be investigated. In this regard, the possible effects on savings, investment allocation, research and development, and entrepreneurship were to be highlighted.

In addition to identifying the three principal areas to be investigated, the analytical framework provided a common set of concepts to be used in the studies and distinguished various phases regarded as useful in tracing the experience of the individual countries and in assuring comparability of the analyses. The concepts are defined and the phases delineated in Appendix F.

The country studies undertaken within this project and their authors are as follows:

Brazil	Albert Fishlow, University of California, Berkeley
Chile	Jere R. Behrman, University of Pennsylvania
Colombia	Carlos F. Diaz-Alejandro, Yale University
Egypt	Bent Hansen, University of California, Berkeley, and Karim Nashashibi, International Monetary Fund
Ghana	J. Clark Leith, University of Western Ontario



India	Jagdish N. Bhagwati, Massachusetts Institute of Technology, and T. N. Srinivasan, Indian Statistical Institute
Israel	Michael Michaely, The Hebrew University of Jerusalem
Philippines	Robert E. Baldwin, University of Wisconsin
South Korea	Charles R. Frank, Jr., Princeton University and The Brookings Institution; Kwang Suk Kim, Korea Development Institute, Republic of Korea; and Larry E. Westphal, Northwestern University
Turkey	Anne O. Krueger, University of Minnesota

The principal results of the different country studies are brought together in our overall syntheses. Each of the country studies, however, has been made self-contained, so that readers interested in only certain of these studies will not be handicapped.

In undertaking this project and bringing it to successful completion, the authors of the individual country studies have contributed substantially to the progress of the whole endeavor, over and above their individual research. Each has commented upon the research findings of other participants, and has made numerous suggestions which have improved the overall design and execution of the project. The country authors who have collaborated with us constitute an exceptionally able group of development economists, and we wish to thank all of them for their cooperation and participation in the project.

We must also thank the National Bureau of Economic Research for its sponsorship of the project and its assistance with many of the arrangements necessary in an undertaking of this magnitude. Hal B. Lary, Vice President-Research, has most energetically and efficiently provided both intellectual and administrative input into the project over a three-year period. We would also like to express our gratitude to the Agency for International Development for having financed the National Bureau in undertaking this project. Michael Roemer and Constantine Michalopoulos particularly deserve our sincere thanks.

JAGDISH N. BHAGWATI  
Massachusetts Institute of Technology

ANNE O. KRUEGER  
University of Minnesota

## **Preface**

In 1969 the University of Ghana invited the University of Western Ontario to join in a twinning arrangement between their two Departments of Economics, sponsored by the Canadian International Development Agency. The details were quickly worked out, and a team of Western Ontario faculty members including myself were seconded to the University of Ghana starting with the 1969–70 academic year. My family and I spent two delightful years in Ghana: we affectionately remember the kind hospitality of our hosts.

My research interests focused on the foreign sector of the Ghanaian economy. Issues such as the failure of the import-substitution strategy as an engine of growth, the deteriorating export performance, and the effect of the exchange control and licencing system attracted my attention. I had barely begun to investigate these issues when I was asked to join the National Bureau of Economic Research project on Exchange Control, Liberalization and Economic Development, and in particular to contribute a study on Ghana. This monograph is the result.

In the process of completing this study I have incurred numerous intellectual debts. The other participants in the project all contributed a great deal to a sharpening of my own thoughts on the issues tackled, and their specific criticisms forced me to rethink and attempt to clarify many parts. Hal Lary of the National Bureau provided leadership and organization for us all. The co-directors of the project, Anne Krueger and Jagdish Bhagwati, deserve thanks for their sustained efforts to improve my work. Yet each of the authors in this project was given great scope to pursue issues and interpretations his own way.

As a result, the approach I have taken and the conclusions I have reached are clearly my own.

Numerous people in Ghana contributed to this study. My principal research assistant in Ghana was S. M. Ntim who handled the task of collecting, organizing and analyzing a considerable amount of the material contained in this study. His unstinting efforts are greatly appreciated. In addition, for shorter periods J. K. Afful and J. A. Sackey helped out as research assistants.

At the University of Ghana many of my colleagues and students were generous in the time and patience they devoted to educating me about Ghana and its economic problems. I also benefited from the thoughtful comments made at various sessions of the Economic Research Workshop Seminars of the Economics Department in Legon where I presented early drafts of several parts of this study. At the risk of singling out one particular colleague, I would like to thank J. B. Abban whose role in discussions and in assisting in obtaining the data for Chapter III was a great help. Typing of early drafts of some sections was cheerfully done by G. T. Adjabeng, B. K. Freeman, and E. M. Qudozia.

At the Ministry of Finance, Ministry of Trade and Industries, Bank of Ghana, Customs and Excise, and the Central Bureau of Statistics I was received with great courtesy and provided with considerable cooperation. The data made available and background information contributed by officials of these agencies have been crucial in completing this study.

Economist friends from various parts of the world contributed very helpful comments on several parts of the study. Peter O'Brien commented extensively on drafts of most chapters. Tony Killick, John Odling-Smee, Michael Roemer, Joseph Stern, and Max Steuer, as well as my colleagues on the Western Ontario Team in Legon—Ake Blomqvist, Merritt Brown and Edward Vickery—all commented on various sections.

In the summer of 1971 I returned to the University of Western Ontario to complete this study. In doing so I benefited greatly from the facilities provided by the Ghana Development Workshop which is funded by the Canadian International Development Agency as part of the twinning arrangement with the University of Ghana. Mrs. Ellen Hall, the Workshop Research Assistant cheerfully and energetically carried a substantial load in collecting and organizing material for me. The members of the Ghana Development Workshop, and also the Trade Workshop, deserve my thanks for their insightful comments on several sections. Typing of numerous drafts and of the final manuscript was very competently and willingly handled by Mrs. M. Gower along with Miss Y. Bowman, Mrs. J. Dewar, Mrs. F. Scott, and Mrs. S. Webster.

Finally, Carole Ann, my wife, and the children, who so enthusiastically accepted Ghana and patiently put up with my preoccupation with this study, deserve a very special mention.

All of those named must share the credit. Yet in the end, the responsibility for the study as a whole rests with me. Shortcomings, and perhaps errors, inevitably remain: for these I accept full blame.

J. Clark Leith

## Principal Dates

- 1844 Signing of "The Bond" by coastal chiefs, in which they acknowledged British jurisdiction (March 6 to December 2).
- 1874 Gold Coast declared a British colony.
- 1896 Ashanti forced to submit to British "protection."
- 1902 Ashanti becomes a British colony and the Northern Territories Protectorate established.
- 1916 Six Africans included in Legislative Council.
- 1922 British Togoland mandate from League of Nations, to be administered as part of the Gold Coast Colony.
- 1946 African majority in Legislative Council.
- 1948 Political agitation against 1946 constitution.
- 1951 Internal self-government granted in new constitution. Election landslide by Convention Peoples Party (C P P), led by Nkrumah who was then released from jail to lead government.
- 1954, 1956 Further elections won by CPP under Nkrumah as Prime Minister.
- 1957 Independence, with Nkrumah as Prime Minister (March 6, exactly one hundred and thirteen years after signing of first Bond).
- 1960 Ghana becomes a republic within the Commonwealth and Nkrumah becomes President (Chief of State and head of government).
- 1961 Exchange control and import licencing severely tightened (July and December).

- 1964 CPP becomes sole party.
- 1966 Military *coup d'état* overthrows Nkrumah and establishes the government of the National Liberation Council (February).
- 1967 Devaluation from N¢ .71 per dollar to N¢ 1.02 per dollar (July). Liberalization of imports begun and continued for next four and one-half years.
- 1969 Elections under new constitution won by Progress Party, government led by Busia, who became Prime Minister (August and October).
- 1971 Devaluation from N¢ 1.02 per dollar to N¢ 1.82 per dollar (December).
- 1972 Military *coup d'état* overthrows Busia government and establishes National Redemption Council. Revaluation from N¢ 1.82 per dollar to N¢ 1.28 per dollar and controls reimposed (January and February).

