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CHAPTER V

Liberalization

In July 1967 the National Liberation Council (NLC) government chose to devalue and launch the economy on an experiment with import liberalization. Four and one-half years later the liberalization had collapsed. The licencing system for 1972 was as restrictive as the system of a decade earlier. What led to this experiment? What were its essential features? And finally, what went wrong? It is to these and related questions that we now turn.

1. The devaluation decision

To see what led to the devaluation and liberalization, we resume our historical narrative, left off in Chapter II, with the situation at the end of 1966. At this point the economy was approximately back in the situation of 1962 through 1964. Numerous instruments had been brought to bear on the balance-of-payments problem. Yet the decline in reserves continued, and the prospect was dim that further measures to defend the official exchange rate would succeed in reversing the trend. At this point there began active consideration of what had long been regarded as the last resort: devaluation.

Conventional wisdom, based largely on a structuralist elasticity pessimism, continued to oppose devaluation as a means of achieving external balance. Yet the corruption of the late Nkrumah era, together with the severe austerity imposed on the post-coup economy for balance-of-payments reasons, combined to produce substantial dissatisfaction with the existing system as a long-term solution. A major body of domestic opinion, mostly the new commercial and industrial upper-middle class, viewed controls and austerity as undesirable, and an import liberalization as a means of discarding both.[1] There was a general recognition that no significant liberalization could be achieved without a devaluation. However, there was little recognition that control over aggregate demand would be more urgent in a liberalized system.

1. This view, for example, was reflected subsequently in the *Progress Party Manifesto*, Accra, 1969, p. 5, where trade controls were said to "have harmed the welfare of the consumer and prevented an orderly growth of the economy."

This failure would contribute eventually to the downfall of the liberalization experiment.

In official circles much the same line of reasoning prevailed and was reinforced by consideration of two external factors.[2] Private foreign investment was said to be discouraged by the increasingly evident exchange risk, and creditor and donor countries were unlikely to be generous unless Ghana put its balance of payments in order.

The need for external support was pressing. The gap between minimum foreign exchange requirements and expected earnings for 1967 amounted to N¢ 95 million according to a Bank of Ghana estimate.[3] On turning to the medium-term official creditors in late 1966, the NLC government obtained substantial rescheduling of the debts falling due through 1968, thus providing immediate breathing space, but no long-term relief.[4] And in early 1967 the IMF convened a meeting of Ghana's ten major western donor countries, with the result of increased aid offers. Yet neither of these forms of relief could be regarded as anything more than a short-term palliative. If external assistance were to continue for long, Ghana would have to put its balance of payments in order. Devaluation would provide such an opportunity.[5]

On July 8, 1967 the then Commissioner of Finance and NLC Member, Brigadier A.A. Afrifa, announced the devaluation. In doing so he skillfully attributed the continuing balance-of-payments difficulties to the inflationary policies pursued by Nkrumah, and put forward as the only alternative to devaluation a further expenditure reduction or a more restrictive licencing system, neither of which, he noted, were favorably regarded. At the same time he justified the "stabilization" (austerity) program of the previous 16 months on the grounds that it permitted devaluation from a position of strength. In summing up, he put forward devaluation as a necessary and logical decision taken in Ghana's own interest. No foreign pressure was either officially acknowledged or blamed, although in a post-devaluation press release E.N. Omaboe, Commissioner of Economic Affairs, is quoted as saying that "donor countries are no doubt going to be impressed by the boldness with which we have approached these chronic economic problems."[6]

2. See J.H. Frimpong-Ansah, "Stabilization and Development: Ghana's Experience," *Economic Bulletin of Ghana,* Second Series, Vol. 1, No. 1, 1970. Mr. Frimpong-Ansah was Governor of the Bank of Ghana from 1967 through 1972.
3. Bank of Ghana, *Quarterly Economic Bulletin,* January–June 1967, p. 3.
4. Payments due in 1966, 1967, and 1968 amounting to N¢ 180 million were reduced to N¢ 46 million in those years by shifting the debt into the future. This is discussed in more detail in section 3 below.
5. We are not aware, however, of any prior undertaking by Ghana to devalue or by donors to support the devaluation. And no such undertaking was officially acknowledged later by either side.
6. Quoted in *Legon Observer,* Vol. 2, No. 16 (4 August, 1967), p. 16.

The devaluation package itself emphasized the exchange rate adjustment, and did not involve an immediate large-scale liberalization of imports. The official price of foreign exchange was increased by about 43 percent, from N¢ 0.714 per dollar to N¢ 1.020 per dollar. In recognition that the purchasing monopsony for cocoa by the CMB fixed the producer price in terms of local rather than foreign currency, the producer price of cocoa was increased by 30 percent.[7] However, producer prices of minor agricultural exports controlled by the CMB were left unchanged for several months. As a small sweetener, the minimum wage was immediately increased by 7.7 percent (from N¢ 0.65 per day to N¢ 0.70 per day) and government wages and salaries were increased by 5 percent. Import levies on some essential commodities which typically did not contain a substantial quota premium were reduced. The liberalization component was mostly in the form of a long-term commitment to expand the OGL list and to permit more liberal remittances of profits. The immediate expansion of the OGL list covered only a few items, with a more substantial widening taking place when the regulations covering the 1968 calendar year were announced in the next month. The direction of the NLC liberalization policy was clear. What remained to be seen was how far the NLC would go towards complete liberalization of imports.

Public reaction to the devaluation is difficult to gauge, for without a parliament and a vigorous press, concerted adverse criticism was not a serious problem for the government. Perhaps the most representative adverse criticism of the devaluation appeared in the semi-intellectual *Legon Observer*, by a commentator under the pen name Kontopiaat. From a complaint about high living costs, he went on to rely mostly on an elasticity pessimism type argument. For exports he noted facetiously that his cocoa trees had suddenly stepped up their yield since the devaluation, and that he was seriously contemplating exporting mosquitoes to South Africa, snakes and scorpions to Rhodesia, snails and frogs to France. He argued further that since the world price of these primary commodities was fixed, one could not, for some unspecified reason, boost export revenues by devaluation. For imports he queried where could local substitutes be found? "We can surely use plantain fibre for wigs;...charcoal and palm oil for soap; and canes for hulahoops...; the list of local substitutes, you see, is quite impressive..."[8] Another major theme was that higher costs of imported machinery and materials adversely affected

7. Note that a devaluation provides an opportunity to increase the producer price without reducing government revenue *vis-à-vis* the pre-devaluation situation because the foreign price denominated in local currency also rises.
8. *Legon Observer*, Vol. 2, No. 19 (15 September 1967), p. 26.

business, particularly small Ghanaian businessmen relative to expatriate businessmen, the latter being somehow unaffected.

A sufficiently large grain of truth existed in each of Kontopiaat's major arguments to make them generally accepted among many of the opponents of devaluation. Most educated critics did not distinguish between low, but nevertheless significant, elasticities and the assumed zero elasticities. The complaint about higher living costs was typically based on a before–after rather than a with–without comparison: a valid judgment in the former case, but not in the latter. The burden on local manufacturers was somewhat more complex. Whether or not high input costs were offset by higher output prices in a before–after comparison depended largely on the degree of protection contained in the pre-devaluation quota premia.[9] In a with–without comparison local manufacturers could have expected higher input prices from suppliers even in the absence of devaluation.

The polemics of political debate aside, what were the economic effects of the devaluation? In particular, did it act to correct the external imbalance and permit import liberalization to proceed as promised? It is to this set of issues that we now turn.

2. *Short-run effects of the devaluation package*

Six years had passed since the open deficit in Ghana's balance of payments had been closed by the system of exchange controls and import licencing. The excess demand for real resources which generated the deficit had been vented on the domestic price level. As a result, the domestic prices of tradeables were out of line with international prices.

The objective of a devaluation in these circumstances is to bring the domestic prices of tradeables into line with the international price level and subsequently ensure that, at the new set of prices, a new excess demand for real resources does not emerge. Hence the primary focus of our analysis of the short-run effects of the devaluation is on domestic prices and aggregate expenditure. In addition, a devaluation almost inevitably alters the distribution of income, an issue that merits consideration.

(a) The impact of devaluation on domestic relative prices

The circumstances in which the 1967 devaluation was introduced are of fundamental importance in evaluating its impact. The restrictive trade and payments regime had been functioning for several years, bottling up the

9. This is discussed in more detail below.

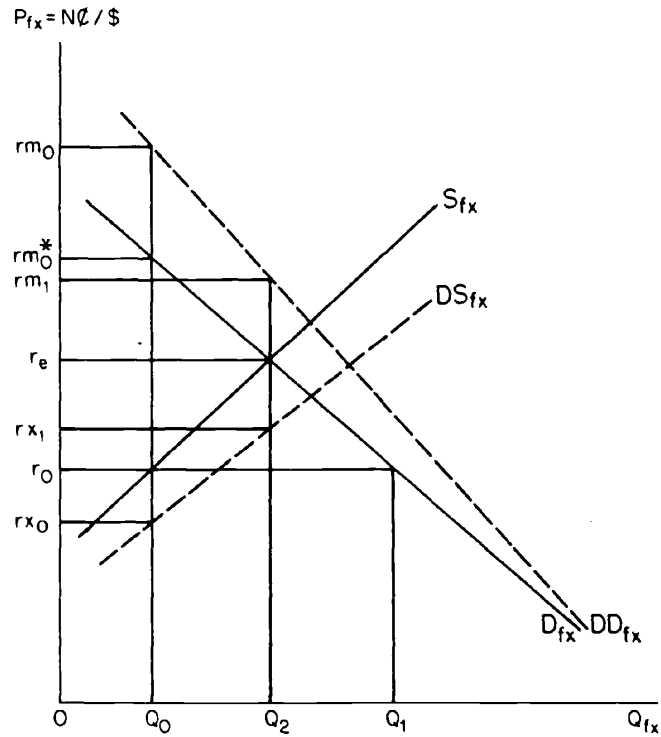

Fig. V-1. Foreign-exchange market.

excess demand and transferring its location from outside to inside the country. Of particular importance for our present discussion is the fact that the value of imports in terms of foreign exchange had already been restricted to less than the level that would obtain at an equilibrium exchange rate.[10]

This situation is illustrated by means of the usual heuristic presentation of the foreign-exchange market in Figure V.1. The vertical and horizontal axes measure the price and quantity of foreign exchange. For our purposes assume the dollar is the unit of foreign exchange and the new cedi the local currency. The demand and supply curves of dollars are represented by D_{fx} and S_{fx}. Assume that these arise only from imports and exports.

10. Further, the deflationary policy that had been followed for approximately twelve months meant that the latent excess demand was smaller than it would have been at a more acceptable (higher) level of domestic expenditure. This is considered further in section 2b below.

Underlying the generation and use of foreign exchange are the domestic markets in which exporters are paid and importers pay in local currency for the goods that enter the international markets. If there are trade taxes the rates at which domestic offers and demands of new cedis for dollars arise will differ from the rates at which the national offers and demands are made. On the export side, a tax means that exporters will receive fewer new cedis per dollar than the nation does. Thus we have drawn the domestic supply curve of dollars as DS_{fx}, which lies below the curve S_{fx} due to the export tax. If the export tax is some arbitrary sum (as in the case of Ghanaian cocoa) the precise relationship between the two curves is not clearly defined. On the import side, the domestic curve DD_{fx} lies above D_{fx} due to the import tariff.

The situation depicted in Figure V-1 is a closed deficit at the fixed exchange rate r_0. The excess demand of Q_0Q_1 is not satisfied because of either an unwillingness to draw down reserves by the amount necessary or simply the absence of adequate reserves. Assuming that exactly the quantity of dollars generated is made available for import (OQ_0), the ultimate purchasers of this value of imports pay Or_0 new cedis per dollar to purchase the foreign exchange, $rm_0^*rm_0$ in import tariffs, and $r_0rm_0^*$ to the recipients of the licence premium.

In these circumstances the fact that the dollar value of imports has already been restricted to less than the level that would obtain at the equilibrium exchange rate is readily apparent. Because of this previous restriction, a devaluation can aim at expanding both the quantity of foreign exchange earned and eventually the quantity of foreign exchange used. It need not aim at "the restoration of equilibrium in Ghana's balance of payment through stimulating exports and curtailing imports."[11] Rather, the appropriate objective is to permit an expansion of both the quantities of foreign exchange generated and used via an upward adjustment of the exchange rate to the point where the latent excess demand is eliminated due to expanding export earnings, and demand for imports is contained by price rather than licences.[12]

The achievement of the objective is by no means automatic. The presence of discretionary "distortions" on the import side, and in the case of Ghana on the export side, means that the devaluation will not be transmitted automatically to the markets for tradeables in the domestic economy. Consequently it is entirely possible to have a devaluation in which one or both of

11. CBS, *Economic Survey*. 1967, Accra, p. 31.

12. In the case of a downward sloping supply curve of foreign exchange (but assuming a stable market) a devaluation moves in the direction of equilibrium by contraction of both the quantities generated and used, but in a closed deficit, the contraction of the quantity used is clearly smaller than in the case of an open deficit.

the export and import sides is unaffected. The necessary discretionary changes may simply not be made.

On the export side, if the distortion is not an *ad-valorem* export tax, only by chance will the change in the new cedi price facing export producers reflect appropriately the rate of devaluation. For example, if the export tax is a residual between a fixed producer price and the world price, the local currency producer price must be increased for there to be any transmission of the devaluation. Movement along the curve S_{fx} arises because of movement along the domestic producers' supply curve, not the other way around. In terms of Figure V-1, if the price facing export producers does not reflect the devaluation, the quantity of foreign exchange supplied will not rise by the amount predicted from considering S_{fx} and the change in the official exchange rate.

On the import side it is important to distinguish between the immediate impact of the devaluation and the subsequent changes that may come about as the quantity of foreign exchange supplied increases. The immediate effect of the devaluation, assuming the dollar magnitude of the licences is kept constant, is to narrow the licence premium gap between r_0 and rm_0^* in Figure V.1.[13] If the devaluation does not entirely close this gap immediately (and it need not, for the expected expansion of the quantity supplied has yet to take place), the price facing ultimate domestic purchasers of imports is unaffected. Nothing happens to the level of foreign-exchange utilization unless the licencing authorities change the dollar value of licences issued. Later, as the quantity of foreign exchange available expands, the licencing authorities can increase the foreign exchange available for imports resulting in a movement down the curve DD_{fx} and an eventual elimination of the gap between the new exchange rate and the rate along D_{fx}. In sum, a devaluation on impact need not mean an increased price facing ultimate domestic purchasers of imports, and can eventually mean a decrease in that price.

In terms of this analytical framework, the changes in prices facing export producers are a useful measure of the extent to which the devaluation is transmitted to exporters. The prices facing purchasers of imports may initially not change at all. If they rise, the devaluation has on impact more than

13. Where imports are for resale, the premium gap is captured as the import items move along the resale chain from the licence recipient to the ultimate purchasers for final use. Where imports are for own use and (as in Ghana) there is no auction system for licences or resale is uncommon, the premium gap is implicit, arising from the quota restriction and the derived demand for the items imported for own use. The following discussion is phrased in terms of imports for resale. Hence for the case of imports for own use one should read "the implicit premium-inclusive price" in place of "the price facing ultimate domestic purchasers."

eliminated the licence premium, and if they eventually fall because the expansion of foreign-exchange earnings permits an increase in licences, the devaluation may be termed a success.

The issue arising from the 1967 devaluation is: to what extent was the external change in the new cedi price of a dollar transmitted to the domestic markets for tradeables? The relationships involved are readily expressed in algebraic form, which we have done in an appendix to this chapter.[14] Our measure relates the domestic price change to the foreign price change associated with the devaluation. The calculations generally involve comparisons between the weighted monthly average of the pre-devaluation period of January through June 1967 and the post-devaluation period of August through December 1967. (Devaluation occurred on July 8, 1967.) These periods were selected to be short enough to avoid extensive extraneous influences not associated with the devaluation, and at the same time long enough to iron out monthly fluctuations. The net result is an estimate of the percentage change in new cedis per dollar received by the export producers or paid by the ultimate import purchasers.

(1) Exports. Our calculations for the export side are contained in Table V-1. These should be taken as nothing more than a rough indicator of what in fact occurred. Several simplifications had to be made in order to arrive at these approximations. For export prices we used unit values from the export trade statistics. Producer prices of the CMB commodities were those paid at the buying stations scattered throughout the country. Producer prices of timber were derived by deducting the export taxes paid at the rates for 1966 for the pre-devaluation prices and the rates for 1968 for post-devaluation prices. Additional points are noted in Table V-1.

Turning to the results, there is some variation between commodities. In the case of cocoa, the CMB increased the producer price by 30 percent immediately after the devaluation. The export unit values rose by over 32 percent in the post-devaluation period, so that the market appears to have adjusted to a nearly complete transmission of the devaluation to domestic producers.[15] For timber, specific export tax levies were reduced immediately

14. See Appendix E.
15. Note that the change in export unit value is very nearly equal to the export price increase that would have been predicted had the producer price change exactly equalled the change required for full transmission (33 percent). See Appendix E for details of this calculation.

Table V-1
Transmission of 1967 devaluation to domestic prices of exports

Commodity	Percentage of exports 1966a	Post-devaluation index (pre-deval. = 100)		Percentage change, in new cedis per dollar
		Producer price	Export priceb	
Cocoa beans[c]	55.5	130.0	132.7	40.0
Cocoa butter	6.2	144.8	144.8	42.9
Timber (logs and sawn)[d]	11.3	128.0	126.4	44.6
Bauxite	0.8	138.9	138.9	42.9
Manganese	6.5	120.6	120.6	42.9
Diamonds	5.8	147.3	134.1	57.0
Gold	9.2	126.1	126.1	42.9
Kola nuts[c]	0.7	100.0	148.0	−3.5
Palm kernels[c]	0.0001	114.5	135.1	21.0
Coffee[c]	1.2	111.0	68.2	132.6
Bananas[c]	0.0013	113.9	159.1	2.3
Shea nuts[c]	0.0027	104.2	88.1	68.8
Sub total and average	97.1			43.04
Others[e]	2.9			42.86
Total and average	100.0			43.03

Notes:
a. Export percentages derived from Central Bureau of Statistics, *Quarterly Digest of Statistics*, June 1968 – except for kola nuts, palm kernels, coffee, bananas and shea nuts, which were calculated from CBS, *External Trade Statistics* (monthly), December 1966.
b. Export unit values used to calculate export prices pre-devaluation (Jan.–June 1967) and post-devaluation (Aug.–Dec. 1967) were calculated from CBS, *Quarterly Digest of Statistics*, June 1968 and March 1969, except for kola nuts, palm kernels, coffee, bananas and shea nuts, which were calculated from CBS, *External Trade Statistics* (monthly), various issues, 1967.
c. These items are handled by the CMB, and the domestic prices are the producer prices paid by the CMB pre- and post-devalution. The cocoa bean price was changed shortly after devaluation: the producer price change for the others is the change from 1967 to 1968. See CMB, *Ghana Cocoa Marketing Board at Work*, Accra, 1968. Taking the producer price change as zero for these items yields the following change in new cedis per dollar in 1967 alone: palm kernels = 5.7237 percent; coffee = 109.5785 percent; bananas = −10.2015 percent; shea nuts = 62.0927 percent.
d. The domestic prices pre- and post-devaluation for timber were derived by deducting the export tax at the *ad valorem* equivalent for 1966 from the pre-devaluation export price and for 1968 from the post-devaluation export price. The export duties and export values are from CBS, *Quarterly Digest of Statistics*, March 1969.
e. Assumed full transmission.

after the devaluation. The change in domestic prices thus more than reflected the devaluation.[16]

The remaining items are minerals, and agricultural commodities handled by the CMB. The mineral exports, except for diamonds won by African diggers, were not subject to export tax either before or after the devaluation and hence there was no mechanism to prevent full transmission of the devaluation. A 9 percent export tax on diamonds won by African diggers was eliminated immediately after the devaluation, resulting in a larger price rise to domestic producers.[17]

The CMB is responsible for the purchase and sale of several minor commodities: coffee, palm kernels, copra, shea nuts, kola nuts, ground nuts, and bananas. Of these only coffee, shea nuts, kola nuts, and bananas were exported in 1966 and 1967. The CMB's response to the devaluation for these commodities was delayed until producer prices were set for the following crop year. And the response in general was considerably less than the devaluation. Taking into account trends in world prices however, and hence new cedi export prices, the net result was virtually no change in the producer prices relative to the international prices for bananas and kola nuts, and very large relative changes for shea nuts and coffee.

Putting all the export items together, the weighted average transmission of the devaluation was fractionally more than the 42.86 percent gross devaluation: for those commodities considered, the domestic price rise was 43.04 percent, and for all exports (assuming full transmission for the remainder) it was 43.03 percent.

16. Despite the relatively large change in prices facing domestic producers of timber, it is important to note that not only must the signal of the devaluation be transmitted to the domestic economy (which in this case it was), but it must be allowed to work. There is some evidence, however, that congestion at the port of Takoradi resulted in a smaller response of timber exports than might have been achieved. "Present facilities [at Takoradi], mechanical handling equipment, and methods are totally inadequate to handle expeditiously the present volume of traffic [of logs and sawn timber]," Nathan Consortium for Sector Studies, *Ports Study: Transport*, 1970, Annex V, p. 3.
17. This probably overstates the case substantially for diamonds as a whole. The diamonds that appear in the export statistics are almost entirely the product of large-scale operations, but in addition individual diamond diggers win what is reported to be a considerable amount of diamonds. However, the purchasing authorities reportedly pay low prices and purchase only from licenced diggers (and licences are difficult to obtain). Hence there is a substantial amount of outward smuggling that is not directly affected by the official exchange rate.

(2) Imports.[18] We turn now to the import side, focusing on items which are imported and resold. The issue here is: what was the direction and extent of the change in prices of imports facing the ultimate domestic purchasers of imports? The domestic market for imports in 1967 was almost totally under the influence of import licencing. And for most goods the binding constraint was the level of licences issued, not the duty-paid price. In these circumstances the result of a devaluation depends on both the local currency c.i.f. price change due to the exchange rate change and on the magnitude of the licences before and after the devaluation. Our focus is on the impact effect of the devaluation and hence the appropriate case is one in which the dollar value of licences is kept constant. It is only later when foreign-exchange receipts have risen that one can expect import licences to be increased.

To measure the percentage change in new cedis paid per dollar of imports we focused on the change in the domestic price. This assumes an infinitely elastic foreign supply of imports. We were unable to develop a complete measure of the changes in domestic prices of imports for resale, but as an approximate measure we resorted to changes in prices of importable items in the domestic wholesale price index. Our data consisted of the monthly reported wholesale prices of each importable item in the CBS Wholesale Price Index.

In virtually all cases the prices preceding devaluation were constant from three or more months. Following devaluation, some prices continued at their former level, and most of the remainder increased to some new higher level. In a very few cases there was a decline. Our measure of the change in price attributable to the devaluation was the difference between the pre-devaluation price and the new price, implicitly assuming that world prices of imports did not change. The new price was almost universally set and kept within the remaining months of the year, although the approach to the new price varied; in some cases the price rose bit by bit to the new level, and in others there was a sharp rise followed by a decline to the new price.

To arrive at a very rough estimate of the overall effect of the devaluation on domestic prices of importables for resale, we computed two import-weighted averages of the price changes, confining our attention to consumer goods.[19] For both averages we matched each importable item from the Wholesale Price Index with the SITC 3-digit group it most appropriately represented. In cases where more than one item fell in a 3-digit group we split

18. The cooperation of the Central Bureau of Statistics in arranging for detailed extractions from the Wholesale Price Index returns is gratefully acknowledged. J.E. Tandoh, the Government Statistician, and S.W.K. Sosuh, Chief of the Primary Statistics Division, were particularly helpful.

19. Consumer goods imports amounted to 31 percent of total imports in 1966, and 33 percent in 1967. See Table A-4a.

the group among the items. Our first average uses the import weights of only those 3-digit items covered. This is "Weight A" in Table V-2. Our second average, "Weight B," was computed by grouping the Wholesale Price Index items into the two major groups of consumer goods imports by end-use, durables and non-durables, and assigning each group the weight of the group in total consumer goods imports.

The results are suggestive, although clearly they are nothing more than crude indicators. The change in price for non-durables was more than 23 percent, while for durables the change was some 6 percentage points less. On average the price rise facing purchasers of imported consumer goods at the wholesale level was about 23 percent. In other words, about 55 percent of the devaluation was transmitted to domestic prices of imports for resale, resulting in some restrictive pressure (via price) on imports.[20]

The average, however, conceals three distinct types of situations. For those commodities that experienced no price change, there was some mopping up of the licence premium, but licences remained the binding constraint post-devaluation. For those that had a price change equal to the devaluation, there was no licence premium pre-devaluation, and the devaluation was fully transmitted to the ultimate domestic purchasers. For the intermediate situation, in which the price rise was less than the devaluation, there was some pre-devaluation licence premium, but this was entirely consumed, changing the binding constraint from licences to price, assuming no significant change in the magnitude of the dollar value of the licence issued. Hence for the second and third types, the authorities were in a position to abandon licences and adopt a liberalized approach for imports.[21]

Finally, two caveats are in order. We should note that our analysis concerns only consumer goods which normally are imported and resold. It does not apply to materials and equipment which frequently are directly imported for own use. For such cases we had no way of measuring the "invisible" licence premium arising from the quota restriction and the derived demand curve for directly imported items, despite the fact that it would be absorbed

20. The Wholesale Price Index also contains a number of items falling in the import categories of materials, equipment and fuels. Using the same procedure as for the consumer goods, we calculated that the price change for raw and semifinished materials was 19.86 percent, for capital equipment 36.33 percent, and for fuels and lubricants 5.57 percent.

21. Note that the test of whether or not licences could be abandoned without affecting the level of imports is not whether the scramble for licences by individual applicants continues. Each importer's share is still affected by the licencing system if licences are retained. This holds despite the fact that the constraint on total imports of a given good is now price rather than licences.

Table V-2
Changes in wholesale prices of importable commodities for resale following 1967 devaluation (percentages)

Imports by end-use group	Weight A (percent)	Weight B (percent)	Price change (percent)
1. Non-durable consumer goods	93.65	87.58	23.68
2. Durable consumer goods	6.35	12.42	17.11
Weighted average – weight A			23.26
– weight B			22.86

Notes: Weighting within groups by SITC 3-digit commodity imports for 1966. Weighting between groups:
Weight A – 1966 SITC 3-digit commodity imports of those items covered.
Weight B – 1966 imports by end-use.

Sources: a. Weights within groups, and weight A between groups derived from 1966 import trade statistics, CBS, *External Trade Statistics of Ghana,* December 1966. Weight B from CBS, *Economic Survey,* 1969, imports by end-use.
b. Wholesale prices of individual commodities extracted from CBS Wholesale Price Index monthly returns from respondents.

in all or part by the devaluation. Second, we have not dealt with the inevitable speculative demand for imports that arises in a licence-restricted system. Whether or not this is affected by the devaluation depends crucially on the expected course of liberalization, but since it is licence constrained, it cannot be measured.

To sum up, the devaluation was approximately fully transmitted on the export side. On the resale import side the domestic price response to the devaluation was about 55 percent of the gross devaluation, within six months of the devaluation.

(3) Relative prices of tradeables and domestic goods. What remains to be considered is how the changes in the prices of tradeables compared with the changes in the prices of domestic goods. Did relative prices change? Our monthly data are limited to price indexes which have substantial elements of importable items. The only component which is clearly not dominated by importables is local foods. The monthly data for 1967 are set out in Table V-3. There was a clear decline in local food prices following the devaluation, with the overall result that the index was, on average, some fifteen points lower in the five months following the devaluation than during the six months preceding. While this was largely due to a good crop, the fact remains that relative to this set of home goods the prices of tradeables rose in the immediate post-devaluation period.

A similar picture emerges if we look at the National Accounts deflators,

Table V-3
National consumer price index, local foods component, and total 1967 (1963 = 100)

	Month	Local foods component index	Total index
	January	179.6	158.8
	February	172.5	156.1
	March	169.6	155.3
	April	173.0	157.5
	May	176.2	159.4
	June	182.5	163.7
	July	178.0	161.5
	August	168.6	157.1
	September	155.4	151.1
	October	156.6	152.7
	November	157.6	153.1
	December	164.5	157.1
Average	Jan.–June	175.6	158.5
Average	Aug.–Dec.	160.5	154.2

Source: *Economic Survey*, 1967, p. 149.

which are available only on an annual basis. We again get a picture of home-goods prices declining relative to tradeables. Recall from Table II-10 that when we isolate the domestic component of GDP, the deflator increased, but by only 1.1 percent from 1966 to 1968, compared with substantially greater rates of increase in the deflators for both exports and imports.

The available evidence, then, indicates that in the immediate post-devaluation period relative domestic prices shifted in the following ways: (a) local currency prices paid to export producers rose relative to the prices facing domestic purchasers of imports and home goods; and (b) local currency prices facing purchasers of imports declined relative to prices paid to export producers, but rose relative to prices facing purchasers of home goods.

(b) Domestic expenditure

The domestic expenditure-output balance is also likely to be altered when a devaluation occurs. It is important to note in this context that the Ghanaian economy had been on a deflationary path for approximately twelve months prior to the devaluation. As a result, the economy was in a position in which much of the required cut in real income had taken place already. Devaluation and accompanying policies would not be called upon to play a major role in further deflating the economy.

The magnitude of the prior deflationary policies is difficult to estimate precisely. What is clear is that in 1967 GDP in current prices was about 1 percent below the 1966 rate. This was primarily the result of a substantial cut in the government deficit. The financial deficit had fallen from an annual rate of approximately N¢ 101 million in the period January through June 1966 to a rate of N¢ 61 million in the twelve months prior to the devaluation (see Table V-5 below).

It is important to note also that the devaluation took place from a position in which the potential foreign exchange deficit had been kept closed, in part, by the system of exchange control and import licencing. The prior deflation and limitation of imports together thus meant that the task of the devaluation did not involve a substantial reduction of total real expenditure in general, and actual imports in particular.[22]

There are two important aspects of the change in the domestic expenditure-output balance when a devaluation occurs: (1) the direct effect of the devaluation package on the levels of expenditure and output; and (2) the fiscal and monetary policies accompanying devaluation. We begin with the former, and examine the effects of the devaluation package on each of the external and internal components of domestic expenditure.[23]

First, the devaluation increased the local currency value of domestic expenditure on imports more than it increased the local currency payments on exports, resulting in a net reduction of expenditure on domestic output. This effect follows when we start from an initial situation of imbalance in which imports exceed exports and when, in the short run, imports continue in excess of exports. Thus when the Central Bank is selling foreign exchange net to the public because imports exceed exports and the price of foreign exchange is increased, there is a net increase in the local-currency-denominated sale of assets to the public, and purchasing power is mopped up. On the import side, one must recall that we are unlikely to have any immediate change in the level of imports. Commodities subject to strict licencing had substantial quota premia and would continue at approximately the same level in the short run, with the result merely that the premia were absorbed by the devaluation. The licence recipients now had to pay a higher local currency

22. This is in contrast with the 1971 devaluation where a reduction of both domestic expenditure and imports was called for. We take this up in sections 4 and 5 below.
23. See R.N. Cooper, "Currency Devaluation in Developing Countries," *Princeton Essays in International Finance*. No. 86, June 1971, for a useful discussion of the problem in a more general context. Also, J.N. Bhagwati and A.O. Krueger take an overview of this issue in the analytical framework for this series: *Foreign Trade Regimes and Economic Development: Experience and Analysis* (publication forthcoming).

price to the Bank of Ghana. The other commodities not subject to severe licencing were largely "essential" imports which are price inelastic in demand. The devaluation did not eat up a quota premium. Rather, because of the inelasticity of demand the local-currency-denominated expenditure on these commodities was increased in the same way as by the imposition of a substantial excise tax, again transferring local currency funds to the Bank of Ghana. In the meantime, exports could not immediately respond. The Bank of Ghana purchases of foreign exchange from the exports would tend to offset the sales to importers, but because imports exceeded exports, the net effect was one in which the Bank of Ghana was selling assets to the public.

Second, the net domestic output-expenditure balance was virtually untouched by the devaluation and accompanying measures: if anything, the effect here was also deflationary. For one, by increasing the availability of imported spare parts and raw materials via the expanded OGL list, domestic producers were able to increase real domestic output. The evidence here is confined to the industrial sector, where the annual data suggest a reasonable recovery of value-added and gross output in 1968 over the stagnation of 1967 (Table V-4).

Domestic expenditure was also potentially subject to two other influences. There could have been a money demand effect in which the public decreased its spending in response to the higher prices of goods in order to restore the real value of its money holdings. However, because the devaluation was one in which quota premia were absorbed, and because exports are not consumed locally, prices of tradeables facing consumers did not rise by the full proportion of the devaluation. And due to the good harvest, prices of local foods declined in the period following the devaluation. The overall effect on the consumer price level was a slightly lower price level in the five months following the devaluation than in the six months prior (see Table V-3 above). Therefore, no immediate effect on the demand for money could be expected.

Table V-4
Gross output and value-added in industry at 1962 prices (in millions of new cedis)

Year	Gross output	Value-added
1962	122.4	81.2
1963	140.8	91.2
1964	147.9	95.0
1965	151.2	98.9
1966	173.0	120.1
1967	179.9	119.7
1968	204.0	124.4

Source: CBS, *Industrial Statistics*, 1966–1968, Accra, 1970.

The "sweeteners" thrown into the devaluation package to make it more acceptable were unusually small in the circumstances. In the face of a 43 percent devaluation, the 7.7 percent increase in the minimum wage and the 5.0 percent increase in government wages and salaries clearly were not large.[24]

The devaluation package itself thus had, on balance, a deflationary effect on the domestic economy. Yet an additional effort was made to dampen the level of domestic expenditure. Apparently the authorities expected the impact of the devaluation to be inflationary. This expectation arose in part from a failure to recognize the potentially deflationary effect of the devaluation in the circumstances of the 1967 devaluation, together perhaps with the popular confusion of a once-and-for-all price rise due to a tax or an exchange rate adjustment and a price inflation due to excess money demand.

The compensating policies that were introduced centered on the government deficit. The measure that most usefully sums up the overall situation is the net increase in the financial claims on the government – i.e., net government borrowing – contained in Table V-5. From the austerity budget of 1966–1967, the deficit was cut further in the twelve months following the July 1967 devaluation by about N¢ 16.5 million (from N¢ 61.1 million to N¢ 44.6 million. Without a more complete macro model, it is difficult to say whether this move was absolutely deflationary or simply less inflationary. In any case, the direction of the effect is clear. It was not, however, a severe cut back. The overall level of government current and capital expenditure was approximately N¢ 380 million in fiscal year 1967–1968.[25] The reduction in the deficit was thus only 4.3 percent of total government expenditures.

To sum up, the combined effect of the devaluation package and the government's fiscal policy does not appear to have been inflationary. On the contrary, the initial conditions surrounding the devaluation suggest that the

24. Cooper, *op. cit.*, p. 16 ff., lists a number of other effects which are frequently important in developing countries' devaluations. These include:
    (1) If the public had accumulated substantial inventories of goods in anticipation of the expected price rise from a devaluation, total expenditure by the public could drop until these excess inventories were depleted.
    (2) If there were a substantial private debt denominated in foreign currency, the devaluation could lead to serious bankruptcies.
    (3) New investment in export industries now favored by the devaluation could lead to an increased aggregate expenditure, but only if the real effect of the devaluation is expected to last (which was somewhat uncertain).
    None of these elements appear to have been significant in the case of the 1967 Ghanaian devaluation.
25. See: Republic of Ghana, *Financial Statement*, 1968–69.

Table V-5
Central government financial receipts, payments and deficits, fiscal years 1965–1969
(in millions of new cedis)

Year*	Months	Financial receipts	Financial payments	Deficit (Net borrowing)
1965	(Jan.-Dec.)	110.4	32.0	78.4
1966	(Jan.-June)	67.3	16.9	50.4 (= 100.8 annual rate)
1967	(July/66-June/67)	122.8	61.7	61.1
1968	(July/67-June/68)	80.4	35.8	44.6
1969	(July/68-June/69)	116.4	69.3	47.1
1970**	(July/69-June/70)	88.3	29.9	54.4

Notes: * The fiscal year was changed by the NLC government with transitional half-year of Jan.-June 1966.
** Provisional estimate.

Source: Republic of Ghana, *Financial Statement*, 1968–69, and 1970–71.

growth of excess demand for real resources by domestic residents was dampened, and possibly even the absolute level of excess demand was reduced.

(c) Income distribution

A substantial shift in one major price, that of foreign exchange, inevitably altered the distribution of income in the economy. The data available permit us to consider only some broad aggregates:[26] the distribution between the export- and import-competing producers; and the distribution between capital and labor.

(1) First, the relative price shifts noted in the preceding discussion suggest that there was a significant shift in the relative distribution of income in favor of export producers. Looking at the immediate price effect alone, and ignoring any subsequent quantity responses, we know that an across-the-board change in the prices of output and inputs results in an equi-proportionate change in the producers' per-unit value-added.[27] Considering individual ex-

26. No data on distribution of income by either income class or functional class are available. Some pioneering work by Kodwo Ewusi on the distribution of income among wage and salary employees covered by the CBS, *Labour Statistics* is reported in his "Notes on the Relative Distribution of Income in Developing Countries," *Review of Income and Wealth*, Series 17, No. 4, December 1971, pp. 371–73. However, since this work refers to only one functional class, it is of limited value in assessing the effect of devaluation on the distribution of income between functional classes.

27. See J.C. Leith, "Across-the-Board Nominal Tariff Changes and the Effective Rate of Protection," *Economic Journal*, Vol. LXXVIII, No. 123, December 1968.

port sectors, cocoa farmers had their output price increased by 30 percent, and because their costs were little affected by the devaluation, were likely to have experienced an even greater increase in their per-unit value-added. Minor agricultural exports handled by the Cocoa Marketing Board were not affected immediately. The mining and timber industries received slightly more than the full benefit of the devaluation on the price of their output, and because not all their inputs are imported, had their total input costs increased by less than the rate of the devaluation, with the result that they benefited by more than the rate of the devaluation.

The import-competing sector, largely consisting of producers of items not classified as "essentials," had already received much of the price increase on outputs due to the import licencing, although as we noted above, there appears to have been some increase in the price of importables accompanying the devaluation. The rate of increase, however, was less than the proportionate increase in costs for the highly import-intensive industries, with the result that per-unit value-added for these activities did not increase by as much as the devaluation.

On balance, therefore, we may conclude that on impact the devaluation shifted the distribution of income in favor of existing export producers relative to import-competing producers.[28]

(2) A second question concerns the distribution of income between capital and labor. If the production functions are Cobb–Douglas, changes in relative factor prices are in the long run compensated by changes in factor techniques resulting in constant income shares for capital and labor.[29] In the short run, however, a shift in relative factor prices does change the income distribution for as long as the existing techniques of production remain in use. Hence, to the extent that the devaluation altered relative factor prices, the distribution of income was altered for the short run.

A careful study for the manufacturing sector by Michael Roemer[30] contains indexes for the wage–rental ratio over the period 1960–1970. The wage

28. This increase in "quasi rents" for exporters is of course the desired result of a devaluation in order to induce a relative shift of resources into export production and out of import-competing production. As resources shift, however, the quasi rents in export activities will fall.

29. There are numerous problems associated with the concept of an aggregate Cobb–Douglas production function: e.g., that it is impossible to derive an aggregrate production function which is independent of the prices of inputs and outputs. For a helpful discussion see A.A. Walters, *An Introduction to Econometrics*, Macmillan, 1968, pp. 305-314. Our approach, however, is a useful first approximation of the initial situation following a devaluation.

30. Michael Roemer, "Relative Factor Prices in Ghana Manufacturing," *Economic Bulletin of Ghana*, Second Series, Vol. 1, No. 4, 1971.

index Roemer employed was based on earnings in private manufacturing establishments. It shows a substantial rise in the cost of employing a unit of labor between 1960 and 1966, amounting to an average compound rate of 7.6 percent. His cost-of-employing-capital index takes into account the costs of domestic and foreign financing, costs of factory construction, as well as capital equipment costs. There was a gradual upward drift in the costs of financing, costs of construction, and costs of equipment. However, the two key policy variables, tariffs and the exchange rate, remained fixed through the period 1960 to 1966. As a result, the cost-of-capital index rose much more slowly than the wage index from 1960 to 1966, at about 3.8 percent per annum. Overall, the wage-rental ratio stood about 25 percent higher in 1966 than in 1960.[31]

The 1967 devaluation succeeded in returning the wage-rental ratio to approximately the situation which prevailed in 1960. The wage index continued to rise in 1967, but the cost of capital was increased substantially by the devaluation. Devaluation increased the local cost of foreign equipment and, via the import component of construction costs, the cost of factory construction. With the other components of the capital index maintaining their previous trends, the cost-of-capital index jumped in 1967 to the point that it roughly equalled the wage index for the same year. This evidence suggests, therefore, that on impact the devaluation significantly increased the relative cost of employing capital. In turn, this means that in the short run (before production techniques change) the distribution of income in the manufacturing sector was shifted relatively in favor of capital and against labor.[32]

A devaluation of the magnitude undertaken by Ghana in 1967 is a substantial shock to many sectors of the economy. After several years of gradually building up the disequilibrium excess demand, of containing it by other measures, and of the consequent redistribution of income, the sudden alteration of relative prices in itself sets up new disequilibrium forces. If these are in the right direction, the initial conditions created by the devaluation point to a correction of the original excess demand. And what we have demon-

31. We are simply summarizing the broad trends of Roemer's findings, with the result that we do not do justice to the careful detail of his analysis. He employs a variety of alternative assumptions concerning the life of assets, the ratio of domestic to foreign financing, and profits taxes. The details change with these alternatives, but the principal conclusions concerning the rise in the wage-rental ratio through 1966 and the substantial drop due to the devaluation remain unaltered.

32. Beyond the initial impact, it is worth noting that in 1968 and 1969 the wage index moved up faster than the cost-of-capital index, eroding about one-half of the effect of the devaluation on the wage-rental ratio.

strated in this section is that on impact the 1967 devaluation introduced a set of incentives which did in fact point the economy towards a reversal of its balance payments difficulties, and eventually, perhaps, to move to a liberalization of its international trade and payments regime. We turn now to a discussion of just what in fact did occur in the first few years following devaluation.

3. The medium-term effects of devaluation

Every Finance Minister who takes the momentous step of a major devaluation must impatiently wait to see whether or not it works – particularly if he remains in office long enough. Our reading of the experience prior to the 1967 devaluation was that failure to control aggregate demand, and hence in a licencing situation the domestic price level, was largely responsible for the balance-of-payments difficulties (Chapter II, section 6). In the previous section of this chapter we established that on impact the devaluation wrenched relative prices in the appropriate direction and was on balance deflationary. What remains to be seen is the subsequent response of the economy to the sudden readjustment produced by the devaluation. A basic question which must be answered is: did the devaluation make any significant difference to the balance-of-payments picture? A related question is: was the pre-devaluation experience a useful guide in predicting post-devaluation developments on the export and import sides?

A simple procedure aimed at answering these questions is to compare the actual export and import experience with the predicted, using the regression results from Chapter II, section 6. Before doing so, it is important to note the behavior of the variables in the years following devaluation. Aggregate demand resumed its expansion in 1968. Following a minor decline in 1967, in 1968 GDP in current prices was up 15.3 percent over 1966. And in 1969 it grew by a further 12.6 percent. Licencing was retained almost entirely intact in 1967, with about 3 percent of imports allowed under Open General Licence. Some liberalization occurred in 1968, and about 18.5 percent of imports came under OGL (see Table V-11 below). Prices declined in 1967, but the GDP deflator jumped in 1968 to a level 11.7 percent greater than 1966, and by an additional 8.8 percent in 1969. With no new changes in the nominal effective exchange rate facing non-cocoa exports, by 1968 the price-deflated rate fell to a level equal to that of 1964, and continued its decline during 1969.

These developments are of considerable significance, for it was not the devaluation alone that was at work over the medium term. Other key determinants of exports and imports – particularly aggregate demand and domes-

Table V-6
Actual and predicted values of non-cocoa exports and imports after 1967 devaluation
(in millions of new cedis)

	First year after devaluation*				Second year after devaluation*			
	Actual	Predicted	Difference (A–P)		Actual	Predicted	Difference (A–P)	
			Absolute	Percent of predicted			Absolute	Percent of predicted
Non-cocoa exports	85.3	93.5	–8.2	–8.8	87.4	90.2	–2.8	–3.2
Imports	314.0	322.0	–8.0	–2.5	354.4	363.8	–9.4	–2.6

Notes: * For non-cocoa exports the first year after devaluation is taken as 1968–1969, and the second 1969–1970. For imports the first year after devaluation is 1968 and the second is 1969.

Source: Actual values of non-cocoa exports from Table II-12; of imports, from *Economic Survey*, 1969.
"Predicted" computed using regression results of Chapter II, section 6: non-cocoa exports from fit of equation (II.6), and imports from fit of equation (II.7).

tic prices – were also acting, but in the opposite direction to the devaluation. Consider now the responses of exports and imports to the devaluation and these subsequent developments (Table V-6).

(a) Non-cocoa exports

For non-cocoa exports, the change in the real effective exchange rate was substantial when compared with previous year-to-year changes. To respond fully to such a large change would undoubtedly require new investment, but new investment would be forthcoming only if it were clear that the devaluation in real terms was going to stick. As a result, the response was slower to emerge than the smaller year-to-year changes would suggest; in the first full year of 1968–1969 the response to the 1968 real effective exchange rate yielded an actual value of non-cocoa exports in constant prices of N¢ 85.3 million compared with a predicted value of N¢ 93.5 million. In the second year, 1969–1970, the actual response to the 1969 real effective exchange rate was much closer to the predicted, with the shortfall amounting to only 3.2 percent of the predicted.

As a check on the predictive power of our estimated equation we reran the regression for the entire period 1961–1962 through 1969–1970 with a separate dummy variable set equal to unity for each year after 1966–1967. This procedure reveals the extent to which the original regression tracked in the postdevaluation period. The result was:

$$\ln NCX_t = \underset{(9.89)}{2.778} + \underset{(6.28)}{0.4359} \ln(EERX/P)_{t-\frac{1}{2}}$$

$$\underset{(-4.50)}{-0.1390}\, D\cdot 1 \; \underset{(-3.01)}{-0.0896}\, D\cdot 2 \; \underset{(-9.59)}{-0.0292}\, D\cdot 3$$

Obs. = 9
R^2 = 0.9359
D.W. = 1.727

where D·1 = 1 for 1967–1968 and zero for all other years, D.2 = 1 for 1968–1969 and zero for all other years, D·3 = 1 for 1969–1970 and zero for all other years. The dummy for 1969–1970 is insignificant, indicating that by then the relationship between the price-level-deflated effective exchange rate and non-cocoa exports was not significantly different from the previous relationship. However, the dummy variables for the two earlier years are significantly negative.

The failure of non-cocoa exports to rapidly reach their predicted levels merits an additional comment. First, the British devaluation of 16 percent in November 1967 reduced the effect of the Ghanaian devaluation in that mar-

ket. Second, there were a number of difficulties encountered internally by potential exporters, particularly the timber export trade. Bottlenecks in rail transportation and at the port of Takoradi were frequent.[33] And until 1969, there were continuing complaints from timber producers about their difficulties in obtaining licences for equipment and spare parts from the import licence authorities. Third, the depletion of natural resource deposits (gold, diamonds, and manganese particularly) may have limited or prevented response to the increased effective exchange rate.[34]

Whether or not the devaluation could be termed a success in stimulating non-cocoa exports depends largely on the basis chosen for comparison. If the basis selected is a before–after comparison, the performance showed only a minor improvement: non-cocoa exports had by 1969–1970 only approximately reestablished the level of 1965–1966.

However, when both the exchange rate and the price level changes are taken into account, the response was approximately what could have been expected on the basis of previous experience. By 1969–1970 the rise in the domestic price level had absorbed much of the effect of the devaluation, and the real effective exchange rate was approaching that of 1965. A more appropriate basis for comparison, however, is the situation in the absence of the devaluation. Our fit of equation (II.6) yields a predicted constant price value of non-cocoa exports of N¢ 76.8 million for 1969–1970 at the old official exchange rate compared with the actual N¢ 87.3 million.[35] In other words, given the inflation, the devaluation yielded an increase of non-cocoa exports amounting to about N¢ 10 million or 14 percent over what would have been otherwise achieved for 1969–1970. In this connection it is important to recall the conclusion from section 2b above: on impact the combined effects of the devaluation package and the government's fiscal policy was not inflationary. Hence the inflation emerged after the devaluation had its initial impact, and was not an immediate consequence of the devaluation but was, as we argue later, attributable to subsequent, post-1967, expansionary policies.

(b) Cocoa exports

The effect of the devaluation on cocoa earnings is difficult to evaluate fully without a detailed econometric model of cocoa supply and demand. The

33. See Nathan Consortium for Sector Studies, *Ports Study: Transport*, 1970, Annex V.
34. This effect is more complex. Absolute depletion would, of course, prevent any response to increased price. Increased marginal costs due to lower-grade veins would, if occurring simultaneously, give the appearance of lower response to the higher price. However, the elasticity for a given price and marginal cost curve increases as the marginal cost curve shifts upward.
35. At the old exchange rate of N¢ 0.714 per dollar, the price-deflated effective exchange rate for non-cocoa exports would have been N¢ 0.363 per dollar.

important issues, however, are reasonably clear. Given the prices and market share at the time of the devaluation, the short- to medium-term response ratio of output to a change in the real producer price would have been about 0.17 (see section 2a). And given a medium- to long-run demand elasticity (absolutely) in excess of -1, we can evaluate the effect of the 30 percent increase in the nominal producer price accompanying devaluation on both output and earnings over the medium term of about three years.

The increase in the nominal producer price from N¢ 5.00 to N¢ 6.50 per headload which accompanied the devaluation could be expected to have the following effects. The short- to medium-term response would, in the absence of domestic price inflation, result in additional output on the order of about 6 percent. However, within three years the domestic price level wiped out the nominal producer price increase, with the result that the net effect on output and hence earnings was nil. Thus the circumstances surrounding the devaluation did not have a significant sustained effect on medium-term output or earnings from cocoa. It is however important to note that without the devaluation, which permitted the increased producer price without loss of government revenue, the continued rise in the domestic price level would have resulted in some medium-term declines in output.

While the policies accompanying devaluation resulted in little if any impact in the medium term, the long-term consequences for cocoa were far more serious. The long-run capacity, which requires time for new plantings to mature, is to a much greater extent affected by the real producer price than short-term output. Further, to induce new plantings, the real producer price must be above some minimum planting effort level. In terms of the 1967–1968 deflator, the minimum nominal producer price for new plantings was about N¢ 9.00 per 60-pound headload.[36] However, the price rise from N¢ 5.00 to N¢ 6.50 per headload accompanying the devaluation was not enough to reach the N¢ 9.00 minimum required at that time, with the result that there was no effect on long-run capacity. This perpetuated a zero plantings state that had persisted since 1964, with the predictable consequence of stagnating output in the 1970's.

The negligible impact of the devaluation does not mean that cocoa output and earnings remained unchanged. On the contrary, substantial changes in output and earnings did occur over the next few calendar years (Table V-7). The peak output of the 1964–1965 season is reflected in the high 1965

36. Bateman's recent work, "Cocoa Study," in *Economic Report*, Vol. IV, mimeograph, Washington, D.C., March 1972, indicates a minimum real producer price of N¢ 198 per ton to induce plantings in 1967–1968. This can be thought of as the intercept on the real price axis. Or course, as with any fitted function, actual observations will be scattered around the fit.

Table V-7
Exports of cocoa and cocoa products, 1965–1970 (quantities, thousands of long tons; values, millions of new cedis)

Year	Cocoa beans		Cocoa paste & cake		Cocoa butter		Total value	
	Quantity	Value	Quantity	Value	Quantity	Value	Millions of N¢*	Millions of $**
1965	494	136.5	21	0.9	21	11.4	148.8	208.3
1966	392	103.1	24	1.2	39	11.5	115.8	162.1
1967 A	267	100.8	12	0.8	10	8.0	109.6	153.4
1967 B	63	29.9	12	1.7	13	14.5	46.0	45.1
1967	330	130.7	24	2.5	23	22.5	155.6	198.5
1968	330	185.6	23	4.5	20	24.1	214.1	209.8
1969	303	218.6	19	3.3	18	24.0	246.0	241.1
1970	362	300.4	17	3.9	17	27.3	331.6	325.0

Notes: * Items may not add to total due to rounding.
**Conversion from N¢ to $ at $1.40/N¢ 1965 through 1967A, and at $0.98/N¢ 1967B (July–December) through 1970.

Sources: 1965-1969, *Economic Survey*, 1969; 1970, *External Trade Statistics*, December 1970; breakdown of 1967, *Quarterly Digest of Statistics*, December 1967. 1967A refers to January through June; 1967B refers to July through December.

calendar year sales volume. Subsequently the sales volume continuously declined until 1970, reflecting in large part the continuing decline in the real producer price in the mid-1950's, and the poor rainfall effect on the 1968–1969 season. Earnings in dollar terms, however, reached the 1965 level by 1968, and increased again in 1969. Output in 1969–1970 rose substantially, responding to the capacity additions of the late 1950's and early 1960's, together with current good weather and further increases in the producer price (to N¢ 7.00 for the 1968–1969 crop and N¢ 8.00 for the 1969–1970 crop) affecting output from existing capacity.

The revenue received from the post-devaluation sales was considerably in excess of what could normally have been expected. During the entire period from the bumper crop of 1964–1965 through 1970 the world cocoa market was in an unsettled situation. Not since the Korean war boom had the market taken so long to adjust to a new equilibrium. For Ghana the very serious price weakness of 1966 was followed by recovery in 1967 and 1968 to approximately the prices which the current actual volume would suggest. The price rise continued to 1969 and 1970, despite the fact that the decline in Ghanaian sales in 1969 was not substantial; in 1970 Ghanaian sales actually in-

creased by about 20 percent. Ghana thus reaped a substantial windfall of cocoa receipts.[37]

(c) Imports

Turning to imports, our estimated equation describing the behavior of the import system takes into account only GDP and licencing, but not the price-level-deflated effective exchange rate facing importers, because the latter was not a restraining influence on imports during the period of licencing. It is conceivable that with the devaluation the price-level-deflated effective exchange rate could again become an active restraint on imports. However, it is clear from Table II-8 that the 1968 rate was considerably lower than the last few years before licencing was imposed. Consequently, even after devaluation it probably did not significantly affect the level of aggregate imports.

The growth of nominal GDP in 1968 and 1969 created pressure on the import system to increase the level of imports. The system responded to the pressure in much the same way as the pre-devaluation experience would suggest. Projecting our estimated equation (II.7) into the post-devaluation period yields predicted imports less than 3 percent higher than the actual imports for the years 1968 and 1969 (Table V-6). Performing a check similar to our check on the export equation, we re-ran the import equation (which was based on data covering 1955 through 1966) for the full period 1955 through 1969 with an additional dummy for each year after 1966. The result was:

$$M_t = \underset{}{114.9} + \underset{(3.560)}{0.1205\ \mathrm{GDP}_t} - \underset{(-1.287)}{32.10\ \mathrm{DLIC}} - \underset{(-0.9091)}{35.53\ \mathrm{D}\cdot 1}$$

$$- \underset{(-0.4097)}{17.85\ \mathrm{D}\cdot 2} - \underset{(-0.1816)}{8.891\ \mathrm{D}\cdot 3}$$

Obs. = 15
R^2 = 0.776
D.W. = 1.278

None of the dummy variables is significant, with the t value for the 1969 where DLIC = 1 for all years when licicensing was enforced (1962, 1963, 1964, 1966, 1967, 1968, 1969) and zero for all other years; D·1 = 1 for 1967 and zero for all other years; D·2 = 1 for 1968 and zero for all other years; D·3 = 1 for 1969 and zero for all other years.
dummy being particularly small. We may therefore conclude that GDP in

37. The windfall of 1970 is discussed in more detail in section 4 below.

current prices and the licencing dummy of the pre-devaluation experience continued to explain the level of imports in the post-devaluation period. The system governing imports does not appear to have changed significantly with the devaluation.

(d) Capital flows

The remaining major item that might be expected to respond to the devaluation is autonomous capital flows, both private and official. As noted in Chapter II, prior to the devaluation private direct investment was felt not to be responding to the more favorable climate created by the National Liberation Council, and donor countries were not anxious to support an untenable balance-of-payments situation. The devaluation was expected to have a favorable effect on both. To sort out the facts, we have enumerated in Table V-8 the various sources of capital inflows (gross, not net) over the period 1965 through 1968.

Private capital inflows fluctuated substantially over the period. The major source of variation is investment by the Volta Aluminum Company (Valco). The timing here relates to the bringing into production of a smelter associated with the completion of the Volta Dam. Official capital inflow for the Volta River Authority (VRA), which built the dam, shows a similar time pattern for the same reason. Further, the Valco agreement provides for an enclave type of activity; investment, repatriation of funds, imports, and exports are all carried out in dollars at the company's own discretion. The entire operation may be considered largely as an electricity export contract denominated in dollars. Consequently, the Valco inflow in Table V-8 has little to do with the exchange rate, or for that matter with any other Ghanaian policy short of contract abrogation. Of major interest then is the total excluding Valco. This exhibits no substantial difference in dollar terms between the year before (1966) and the year after (1968) devaluation.[38]

It would be unwise to draw any strong conclusions from this limited set of data. It is simply suggestive of the sort of argument that appears in the literature on foreign investment; the exchange rate is only one of many kinds of influences on private capital flow. Most of the other influences, such as

38. One might also want to exclude from consideration reinvested profits on the grounds that such reinvestment is largely due to exchange control regulations blocking full remittance of profits; and the private suppliers' credits could be excluded because they are usually denominated in a foreign currency. This leaves only the "others" category, including direct investment – which also shows little change between 1966 and 1968.

Table V-8
Private and official capital inflows, 1965–1968 (in millions of US dollars)

	1965	1966	1967	1968
Private				
Reinvested profits	13.4	12.6	12.6	8.4
Valco	23.2	40.9	16.9	2.6
Private suppliers' credits	–	–	2.9	3.9
Others	0.3	6.2	5.6	5.8
Total	38.4	59.6	38.0	20.8
Total excluding Valco	15.1	18.8	21.2	18.1
Official				
OECD donors	–	7.8	15.0	39.3
Suppliers' credits	82.9	30.8	9.1	0.2
Volta River Authority	19.3	14.8	2.7	
Others	2.8	0.8	0.3	0.6
Total	105.0	54.3	27.1	40.1
Total excluding suppliers' credits & VRA	2.8	8.7	15.3	39.9

Sources: 1965 and 1966: Republic of Ghana, *Ghana's Economy and Aid Requirements in 1967.* Accra, May 1967. Converted from pre-devaluation N¢ at rate $1.40/N¢.

1967 and 1968: Republic of Ghana, *Ghana's Economy and Aid Requirements January 1969–June 1970.* Accra, March 1969. Converted from post-devaluation N¢ rate $ 0.98/N¢.

ability to repatriate profits, are not directly affected by the exchange rate. Hence a devaluation alone is unlikely to produce a noticeable increase in the private capital inflow. And it evidently did not for Ghana.

Official capital flows, paradoxically, are more sensitive to the exchange rate. Determined in part by the development "needs" of the recipient but also in part by the donor's sense of the appropriateness of the recipient's policies, they are affected to a substantial degree by the visible measurable policy changes in the "correct" direction. A devaluation in the face of balance-of-payments difficulties is taken as a clear signal that the "appropriate" economic policies are being followed and hence that the country is deserving of support. This was in part the view taken by major OECD donor countries in response to the Ghanaian 1967 devaluation. A moderate inflow for 1966 to support the new NLC government was doubled in 1967 and more than

redoubled in 1968.[39] The official expectations were thus substantially realized.[40]

The gain from increased official capital inflows was in serious danger of being swamped by large repayments falling due on substantial medium-term suppliers' credits contracted by the Nkrumah government. Some relief had been obtained in a December 1966 debt-rescheduling agreement covering payments due through December 1968.[41] However, by not changing the debt schedule for 1969 and later years, a substantial hump for 1969 remained, with over N¢ 80 million or about 20 percent of exports falling due in that year.

Facing the prospect of a major debt repayment burden in 1969, Ghana turned to her creditors a second time in October 1968. Again only limited relief was obtained. This time medium-term debts due from January 1, 1969 through June 30, 1972 were shifted forward to the period 1974-1981.

The original medium-term debt schedule is compared with the revised 1966 schedule and the 1968 schedule in Table V-9 on the assumption that no new debt is incurred. The net result of the two reschedulings was to provide immediate relief for 1966 and 1967 and, in the years 1968 through 1971, a 47 percent cut in payments falling due. In the new schedule, however, the situation reverses by 1972, with higher payments falling due from then on. And because of moratorium interest on the rescheduled amount of about 6 percent per annum, the total payments were increased by about 25 percent.

The medium-term suppliers'-credit debts were clearly the most pressing, but by no means the only debts facing Ghana. Short-term debts in the form of arrears, trade credits, bank loans, and net IMF position were also falling due, together with a long-term debt arising from major capital projects undertaken in the past, such as the Volta Dam. Even after the 1968 rescheduling of medium-term debts, the overall schedule on existing debts for 1969 through 1981 promised little relief for the 1970's (see Table V-10). The somewhat more sympathetic attitude of donors in the 18 months following the 1967

39. At the same time reliance on official suppliers' credits was almost completely abandoned.
40. The actual inflow data probably overstate the increased commitments because the lag between commitment and utilization was being reduced as the Ghanaian authorities became more familiar with the intricacies of aid administration.
41. Payments on approximately N¢ 180 million of outstanding medium-term debt falling due between July 1, 1966 and December 31, 1968 – plus arrears accumulated prior to July 1, 1966 – were consolidated. Eighty percent of the consolidated amount was shifted to the period 1972-to-1979, with 20 percent to be paid between July 1, 1966 and December 31, 1968. These and other details are taken from Norman L. Hicks, "Debt Rescheduling and Economic Growth in Ghana," USAID Mission to Ghana, *Research Memorandum No. 8*, Accra, May 1969.

Table V-9
Medium-term debt schedules (in millions of new cedis post-devaluation)

Year	Original schedule	After 1966 rescheduling	After 1968 rescheduling	Net relief	
				Original minus 1966	Original minus 1968
1966	52.7	8.1	8.1	44.6	44.6
1967	64.5	8.6	8.6	55.9	55.9
1968	63.1	29.2	29.2	33.9	33.9
1969	59.0	82.6	33.9	−23.6	25.1
1970	50.5	58.8	22.6	−8.3	27.9
1971	37.8	49.5	26.6	−11.7	11.2
1972	21.1	37.3	38.3	−16.2	−17.2
1973	14.4	33.5	41.2	−19.1	−26.8
1974	10.9	32.6	44.8	−11.7	−33.9
1975	5.6	31.0	49.1	−25.4	−43.5
1976	3.8	31.5	53.6	−27.7	−49.8
1977	2.5	31.3	52.4	−28.8	−49.9
1978	1.6	31.8	52.0	−30.2	−50.6
1079	0.7	15.5	34.7	−14.8	−34.0
1980	0.7	0.7	27.4	0.0	−26.7
1981	–	–	24.6	0.0	−24.6
Total	436.8	482.0	547.1	−45.2	−110.3

Source: Norman L. Hicks, "Debt Rescheduling and Economic Growth in Ghana," US AID Mission to Ghana, *Research Memorandum No. 8*, Accra, 1969.

devaluation had provided Ghana with some temporary relief from the immediate pressure arising for 1969, together with a relatively smooth debt schedule for the 1970's. However, Ghana did not obtain any substantial cancellation of debts.

To sum up, in the medium-term the devaluation did affect the merchandise trade account by about the magnitudes expected from previous experience. The devaluation, however. could not and did not do more than that. Resumption of gradual domestic price inflation was eroding the effect of the devaluation for both non-cocoa and cocoa exports, and the pull of aggregate demand was continuing to raise the level of imports. In a before-after comparison, the net merchandise balance for 1968 and 1969 was little different from the situation of 1962 or 1964. It is important to note, however, that the merchandise balance would have shown a substantially greater deficit in the absence of the devaluation.

On capital account the only noticeable change following devaluation was a somewhat more sympathetic view by the donor countries, which materialized in the form of increased aid flows and a smoothing of the debt schedule.

Table V-10
Short-, medium-, and long-term debt schedule (in millions of new cedis)

Year	Short-term	Medium-term	Long-term	Total
1969	30.9	33.9	15.0	79.8
1970	52.8	22.6	15.2	90.6
1971	44.7	26.6	16.4	87.7
1972	26.3	38.3	17.3	81.9
1973	16.1	41.2	19.1	76.4
1974	11.6	44.8	20.4	76.8
1975	9.6	49.1	21.8	80.5
1976	8.6	53.6	22.2	84.4
1977	4.5	52.4	22.4	79.3
1978	4.5	52.0	23.3	78.8
1979	4.5	34.7	23.6	62.8
1980	4.5	27.4	23.3	55.2
1981	4.5	24.6	22.7	51.8

Notes: Short-term includes arrears, trade credits, IMF (net), and bank loans. Official suppliers' credits only considered under medium-term. Long-term includes private suppliers' credits. This schedule refers to the situation after the 1968 rescheduling.

Source: Norman L. Hicks, *op. cit.*

Overall, the medium-term result of the devaluation was largely one of preventing further deterioration. The substantial readjustment necessary for a sustained liberalization did not emerge. Yet the NLC government had committed itself to a limited liberalization. As General Afrifa had declared in his devaluation announcement: "It is as you know the firm objective of the NLC to free our foreign trade payments from all artificial restrictions and controls."[42] The Progress Party government elected in 1969 was committed to a more sweeping dismantling of the control system.[43] Were these commitments to be honored, and if so in what way?

4. The import liberalization experience, 1967–1970 (Phase IV and return to Phase I)

Import liberalization began almost immediately after the devaluation and continued an uneven but uninterrupted expansion through the next four and one-half years. The attempt was cautious. Expansion of the OGL list was

42. Reproduced in, Bank of Ghana, *Report of the Board for the Financial Year Ended 30 June*, 1968, p. 43. This was somewhat qualified by the far more restricted commitment to place a very limited list of items on OGL.
43. See quotation from the *Progress Party Manifesto*, note 1 above.

spread over several years. Begun by the National Liberation Council (military) government, it was continued by the elected Progress Party government of Prime Minister K.A. Busia which took office in October 1969. A commitment to liberalization was an important component of the Progress Party's platform, and during its 27 months in office the Busia government continued to move towards total liberalization of imports.

The drive towards import liberalization appeared, on the surface at least, to be successful. For the first three and one-half years the trade balance did not move into a serious deficit position. And there was an increased reliance on price instruments rather than quantitative restrictions to control imports. As licences were removed from substantial portions of the import bill, surcharges on de-licensed imports were introduced. Initially then the import liberalization appeared to be designed to substitute price for quantitative restriction of imports. A further resort to price instruments came in the form of an announced subsidy for nontraditional exports.

In the latter stages of the liberalization, however, it became apparent that the objective was to increase the level of imports – an objective far more difficult to sustain in the absence of continued export growth. The initial success of the liberalization in increasing imports was due not so much to the underlying strength of the situation as to an unusual set of external circumstances. Foreign-exchange receipts were buoyed by exceptional cocoa earnings and substantial aid flows, plus debt-service relief.

When these external factors, particularly the cocoa market, adjusted to normal levels in 1971 it became obvious that a severe cut in imports was necessary. In a desperate move to correct the enormous imbalances that had arisen, a massive devaluation of nearly 80 percent was undertaken at the end of December 1971. This proved to be the final straw for large segments of the population already restive with the Busia government. Colonel I.K. Acheampong and his associates led a successful military coup in mid-January 1972. The new government revalued the exchange rate, wiping out two-thirds of the devaluation, repudiated some of the suppliers'-credit debt, unilaterally rescheduled much of the remainder, and reinstated strict import licencing. The import liberalization was finished.

In this section we trace the major developments during the liberalization episode in order to sort out their precise nature, timing and magnitude. This will enable us to consider in the next section the successes, failures, and neglect present in the Ghanaian liberalization experiment.

The OGL system for imports was the major vehicle of the liberalization. A small but crucial step in expanding the OGL list had been made in late 1966. Following a policy declaration which noted, among other points, that the aim of the government was not to continue these controls permanently but rather

to have most essential commodities imported on OGL,[44] specific additions were made to the OGL list for 1967 which broke with the past. Up to this point the OGL list was largely confined to personal items and minor border trade. The list for 1967, however, added specified pharmaceuticals, fertilizers, hand tools for cultivation, fishing gear and a few industrial materials. The list was not long, and the total volume of imports under OGL in 1967 amounted to only 3.15 percent of total imports (see Table V-11 below). This was the first time since 1961 that the OGL was deliberately expanded and not quickly reduced again.

The devaluation announcement reaffirmed the intention to liberalize, and specifically to "include on OGL virtually all industrial and agricultural spare parts and chemicals, nearly all pharmaceuticals, and insecticides...".[45] In the next month, regulations for 1968 were published which contained these and other major additions to the OGL list,[46] with the result that 1968 OGL imports amounted to 18.5 percent of a substantially increased total import bill.

The following year, when regulations were announced for 1969, a further substantial addition was made to the OGL list. Again the result was an increased volume of imports under OGL: some 27.8 percent of an enlarged import bill. With this substantial portion of imports contemplated under OGL, the policy makers recognized that some dampening of the demand for delicenced imports would be necessary. The result was a surcharge on most OGL imports introduced in February 1969.[47] The surcharge rate, however, was low: only 5 percent of the c.i.f. value.

The last budget of the National Liberation Council government was presented to the country in July 1969 by J.H. Mensah, Commissioner of Finance.[48] The budget placed considerable emphasis on export promotion.

44. *Commercial and Industrial Bulletin*, 7 October 1966.
45. General Africa, reproduced in the Bank of Ghana, *Report of the Board for the Financial Year Ended 30 June*, 1968, p. 42.
46. For the first time, apparently, the OGL list, as well as the restricted list, was defined in terms of the SITC trade classification.
47. National Liberation Council, *Decree 325*, Gazetted 13 February, 1969. Exceptions to the surcharge were household effects, single copies of printed matter, pets, pharmaceuticals, textbooks, and fish caught by Ghanaian-owned vessels.
48. Mensah, trained at the London School of Economics and Stanford University, was regarded as one of the most promising and capable economists available to the government. His previous experience included four years on the faculty of the University College of the Gold Coast (now the University of Ghana), three years as an economist at UN Headquarters, followed by four years (1961–65) in the National Planning Commission, Accra, where he was the leading architect of the Seven Year Development Plan. He then went to the UN Economic Commission for Africa, returning to Ghana as Commissioner of Finance in April 1969.

Schemes were announced which would provide exporters of manufactures (except products of the woodworking and metal processing industries) with: rebates of up to 50 percent of their company tax liability; a cash bonus of 10 percent on incremental exports; replacement of licences on imported materials used; and drawback of duties and indirect taxes on materials used for export. Also announced was a subsidy of one-third of the internal transportation costs of moving secondary species of timber to harbor for export or elsewhere for processing or sale in the local market.

While of limited scope, these schemes could have resulted in a significant incentive to the eligible firms. However, administrative complications or delays in implementation made all of them inoperative from the firms' viewpoint. The procedures for drawbacks on indirect taxes and duties, and the procedures for obtaining export licences were so complex that only large firms could hope to cope, let alone find it profitable to participate.[49] The export bonus scheme was not enacted until April 1971, some 21 months after announcement, the delay apparently being due to "the long drawn-out discussions" with the IMF.[50] And the timber transport subsidy scheme had still not been implemented by the time of the 1970 budget a year later.[51]

The process of import liberalization was continued with the announcement in September 1969 of the OGL list for 1970. The elected Progress Party government, which took office shortly thereafter, retained the list until the budget for fiscal year 1970/71 was presented in August 1970, except for the addition of some "essential" food items in March 1970. The result for the first 8 months of 1970 was 39.4 percent of all imports coming under OGL.

The first budget of the Progress Party government was presented to Parliament in August 1970 by J.H. Mensah, now Busia's Minister of Finance. This marked a renewed drive towards liberalization in fulfillment of the Progress Party commitment to eventually abandon licencing.[52] Almost 60 percent of all imports for the remainder of the year came under the new OGL listing. Mensah also renewed the policy of surcharges on OGL imports, but abandoned the single rate. Instead, he introduced surcharges on most OGL imports, with rates which varied from 5 percent to 150 percent of c.i.f. value. Items subject to surcharge were automatically placed on OGL, although not

49. This was partially admitted even by J.H. Mensah, now Minister of Finance, in his 1970 *Budget Statement*, Accra, 25 August, 1970. On the drawbacks, he noted, "...so far very few applications have been received..." (p. 34). With respect to the company tax rebate, he said, "It has been decided this year to add to these tax incentives a simplification of doing export business" (p. 34).
50. *Ibid.*, p. 35.
51. *Ibid.*, p. 35.
52. See *Progress Party Manifesto, op. cit.*, p. 5.

all OGL items were subject to surcharge. The rationale of the differentiated surcharges was apparently a combination of a desire to capture for government revenues the quota premia on newly freed imports, together with a recognition that the demand for such imports had to be dampened.[53] The full protective consequences were apparently not taken into account prior to the budget.[54]

An instrument employed to achieve more than one objective, as the surcharge was, is bound to encounter serious difficulties in achieving all the objectives assigned to it. Such was the case with the differentiated surcharges. They do not appear to have had a major dampening effect on imports, did not generate a substantial additional revenue, and considerably altered the protective structure.

The additional collections of surcharges amounted to only approximately N¢ 7.3 million during the rest of 1970, or 5.4 percent of total imports and 8.9 percent of OGL imports for September through December 1970. This is a rough estimate arrived at by assuming that the January-through-August 1970 rate averaged the same as 1969. (Surcharge collections in all of 1970 amounted to N¢ 10.7 million.)

We have seen the jumbled protective consequences of this in Chapter III above. The surcharges substantially increased the protection of some industries, but many others had their protection reduced – some to the extent that previously positive protection was turned into negative protection. Consumers and industrial users of commodities subject to substantial surcharges were quick to complain. Some minor adjustments were made, but the widely differentiated structure remained intact.

An administrative change introduced in August 1970 also involved a loosening of OGL. Commitment forms for OGL were abandoned. These had been used since 1967 and were ostensibly designed to ensure that where possible commodity aid would be utilized rather than OGL. Commitment forms were issued by the licencing authorities on application to cover most commercial imports available under OGL. This enabled the licencing authorities to keep tabs on OGL imports and to increase utilization of commodity aid. To our knowledge, it was not used deliberately to restrict imports, but by its nature did involve an administrative hinderance.

A further change announced in the 1970 budget was an increase from $2\frac{1}{2}$ percent to 5 percent in the interest rate on Post Office Savings deposits. Although postal savings were not large, this move represented an important break with the past neglect of incentives to save. Implementation was some-

53. See *Budget Statement* for 1970–1971, Accra, 25 August, 1970.

54. The most serious omission was a failure to recognize fully the cost-increasing effect of surcharges on inputs for firms which received no additional protection of output.

Table V-11
Open general licence imports, 1967–1970

Group	Value (millions of new cedis)					
	1967	1968	1969	1970A**	1970B**	1970
0 Food and live animals	6.86	6.35	8.94	37.44	23.53	60.97
1 Beverages and tobacco	0	0	0	0	0	0
2 Crude materials, inedible	0.03	0.04	0.06	0.01	0.39	0.40
3 Mineral fuels and lubric.	0.04	0.35	0.35	0.72	–	0.72
4 Animal and veg. oils and fats	0	0	0	0	0	0
5 Chemicals* and pharm.	0.67	20.44	33.56	27.27	12.65	39.92
6 Manufactured goods	0.14	4.73	17.80	13.48	12.42	25.90
7 Machinery and transport equip.	0	22.79	31.48	26.25	24.84	51.09
8 Misc. manufactured articles	0.26	0.34	2.27	2.32	1.50	3.82
9 Misc. n.e.s.	0	0	0	0	0	0
Total	8.00	55.04	94.46	107.49	75.33	182.82

Group	Percentage composition of OGL					
	1967	1968	1969	1970A**	1970B**	1970
0 Food and live animals	85.75	11.54	9.46	34.83	31.24	33.35
1 Beverages and tobacco	0	0	0	0	0	0
2 Crude materials, inedible	0.375	0.07	0.06	0.01	0.52	0.22
3 Mineral fuels and lubric.	0.50	0.64	0.37	0.67	0	0.39
4 Animal and veg. oils and fats	0	0	0	0	0	0
5 Chemicals* and pharm.	8.375	37.14	35.53	25.37	16.79	21.84
6 Manufactured goods	1.75	8.59	18.84	12.54	16.49	14.17
7 Machinery and transport equip.	0	41.41	33.33	24.42	32.97	27.95
8 Misc. manufactured articles	3.25	0.62	2.40	2.16	1.99	2.09
9 Misc. n.e.s.	0	0	0	0	0	0
Total	100	100	100	100	100	100

Table V-11
(continued)

Group	Percentage of all imports*					
	1967	1968	1969	1970A**	1970B**	1970
0 Food and live animals	15.88	12.45	16.20	72.43	84.65	76.72
1 Beverages and tobacco	0	0	0	0	0	0
2 Crude materials, inedible	0.82	0.64	1.11	0.22	12.04	4.25
3 Mineral fuels and lubric.	0.26	1.63	1.53	4.34	0	2.96
4 Animal and veg. oils and fats	0	0	0	0	0	0
5 Chemicals* and pharm.	2.62	66.02	83.68	87.85	70.86	81.64
6 Manufactured goods	0.19	6.20	18.27	18.68	43.24	25.68
7 Machinery and transport equip.	0	26.51	33.31	34.99	74.95	47.25
8 Misc. manufactured articles	1.69	2.44	15.55	20.89	28.48	23.33
9 Misc. n.e.s.	0	0	0	0	0	0
Total	3.15	18.55	27.83	39.36	58.84	45.58

Notes: * OGL and total imports exclude Valco imports of aluminum. Excluded from OGL imports are several minor items such as headloads of foodstuffs, single copies of books and periodicals and some spare parts which are not separately identified in the *External Trade Statistics.*
** 1970A refers to January through August, and 1970B refers to September through December, to take into account a major expansion of OGL from August 25, 1970.

Source: Compiled from OGL lists published in *Commercial and Industrial Bulletin*, and corresponding import values recorded in *External Trade Statistics.*

what slower than the "immediate effect" promised in the budget speech: ten months passed before the increase took effect.

The import liberalization approach was selective in its incidence. Given the gradualist strategy adopted, and the differentiated compensating taxes (surcharges) on OGL, no other option appeared viable. The result was substantial variation in the proportion of OGL imports by major groups (see Table V-11). By the end of 1970, 70 percent or more of food, pharmaceuticals, and machinery imports were on OGL.[55]

55. Further, most fuels and lubricants were licenced in name only, with the volume of licencing based on actual demand. Hence SITC section 3 was also in effect almost completely liberalized.

From the perspective of late 1970, substantial progress had been achieved in liberalizing imports in the three years since devaluation. This had been made possible, in large part, by exceptionally large foreign-exchange receipts from cocoa and from aid donors. While the latter could be expected to continue for a few more years, the cocoa market windfall of 1970 could not.

In the post-Korean boom period a significant and relatively stable negative relationship between Ghana's cocoa volume and price had existed. Such a relationship provides a useful device both for evaluating the extent to which current cocoa receipts are normal, and for forecasting expected receipts on the basis of crop reports. While such an exercise was not, to our knowledge, explicitly undertaken, it is useful to do so in order to illustrate the approximate magnitude of the windfall of foreign-exchange receipts for 1970 and the adjustment necessary in 1971.

One such relationship between cocoa volume and price is:

$$\ln CXP_t = \alpha + \beta \ln CXV_t + u_t \qquad \text{(V.1)}$$

where:

CXV_t = index of cocoa-bean export volume

CXP_t = index of cocoa-bean export price

Using annual data for the period 1955 through 1969,[56] we obtained the following fit:

$$\ln CXP_t = \underset{(16.75)}{8.655} - \underset{(-7.51)}{0.8893} \ln CXV_t$$

Obs. = 15
R^2 = 0.8128
D.W. = 1.468.

In turn, substituting the actual volume index of 89 for 1970, we obtain a predicted price index of 107, compared with the actual index of 173. Translated into values, this means that the actual 1971 receipts of $ 294.4 million for bean exports alone were $ 112.1 million (or N¢ 111.4 million at the 1970

56. Source: IMF, *International Financial Statistics*, 1971 Supplement, Ghana, pages, volume index from line 72a and price index from line 74a (1963 equals 100 for both indexes), and Price Index converted to dollar terms, using IFS dollar export unit values for period 1967 through 1969.

exchange rate) greater than could be expected from past relationships.[57] With a windfall of such a magnitude the goods and services deficit of only N¢ 15 million during 1970 appears much less of a success. Put another way, approximately 27 percent of the 1970 import bill was financed by the cocoa windfall.

Moving into 1971, with an expected volume of sales approximately equal to that of 1970, the predicted bean price based on the fit of equation (V.1) above would be US $ 22.51 per hundred pounds. And as 1971 proceeded the actual price received did fall towards that level. During the first quarter the price averaged $ 28.66, and in the second quarter, $ 24.41, continuing to fall for the remainder of the year.[58] On the basis of this information, a prediction made towards the middle of 1971 would put estimated cocoa receipts for the current year nearly $ 100 million less than during 1970. Yet with the further liberalization of mid-1970, imports were continuing to grow at a substantial rate: 20 percent greater in the first half of 1971 than in the corresponding period of 1970. It is within this context that the Finance Minister set about the task of drawing up the 1971 budget.

J.H. Mensah presented the second budget of the Progress Party government to Parliament in late July 1971. The major feature was a drive toward total liberalization of imports.[59] At the same time it reflected the increasingly complex nature of the policy mix adopted to deal with the growing balance-of-payments pressure while at the same time pursuing import liberalization. The OGL list was extended further: over 76 percent of imports were free of direct control.[60] Surcharges were extended to specifically licenced imports and, correcting a major anomaly, government imports (including exempt public corporations) were now subject to import taxes.[61] Further, a 25 percent tax was levied on most non-commodity current payments, reducing the discrimination in favor of invisibles over goods imports.[62] Retreat-

57. If we were to take a shorter period, thus placing more weight on the later part in which Ghana was experiencing a reduced share of the world market, the price response which would have been predicted to the increased volume of 1970 would have been even greater than fitted relationship based on 1955 through 1969 data. Such a measure would mean an even larger calculated windfall for 1970.
58. See IMF, *International Financial Statistics*, June 1972.
59. The details which follow are taken from the *Budget Statement for 1971-72*, Accra, 27 July, 1971, unless otherwise indicated.
60. This figure is calculated by applying the new list to 1970 imports.
61. A Central Bureau of Statistics tabulation of government imports alone (excluding exempt public entities) for 1970 indicates that government imports amounted to 8.5 percent of total imports.
62. Remittances of current profits which had previously queued were now guaranteed but subject to a 25 percent tax. Transfers of foreign exchange for travel, payments of commissions, interest and headquarters expenses were also subject to a 25 percent tax. Airline and shipping remittances for other than merchandise imports, remittances for insurance, and student remittances were subject to a 10 percent tax.

ing to a limited extent from liberalization, the restricted and banned lists were expanded. And both to contain the surge of food imports as well as to encourage local production, some food items – including rice, sugar, and fresh or frozen fish which had been subject to low rates of duty and surcharge -- were withdrawn from the OGL list.

In a move accompanying the budget, the export bonus (subsidy) for non-traditional exports which had finally been enacted earlier in the year was increased from 10 percent on incremental values to 25 percent of the total value.[63] The 25 percent bonus was also applied to tourist purchases of local currency with convertible foreign exchange. In a related move, the procedures for tax and duty drawbacks on exports had been simplified, making it feasible now for exporters to take advantage of these provisions.[64]

The Finance Minister also took a major if incomplete step toward monetary reform. Recognizing that the nominal interest rates were far too low to attract a major volume of savings, he announced that commercial banks were to increase their rates of interest on savings and time deposits from the previous $2\frac{1}{2}$-3 percent to a minimum of $7\frac{1}{2}$ percent, and to pay interest at the rate of 1 percent on demand deposits. In addition, the bank rate was increased from $5\frac{1}{2}$ percent to 8 percent. An accompanying set of instructions to the commercial banks set the ceiling on loan rates at 11 percent, up from the previous 10 percent.[65]

The resumption of normal cocoa prices was also creating budgetary problems. The cocoa export tax, a progressive function of the local currency export price, was yielding considerably less revenue than in the previous year. Projected total revenues at existing tax rates indicated a decline in revenues amounting to N¢ 121 million from the 1970–1971 revenues of N¢ 490 million. As a small partial remedy, an additional tax on income was introduced under the label: National Development Levy. Nevertheless, proposed internal borrowing amounted to N¢ 129 million, in contrast with actual borrowing of N¢ 49 million and N¢ 40 million in the two preceding fiscal years, plus a N¢ 25 million withdrawal from reserves.

In pushing forward with import liberalization, the government was convinced that this would be the means whereby it could pull the economy out of the doldrums. This opinion, however, was by no means unanimous in the country or even within the government. Strong pressures for the abandon-

63. *Legislative Instrument 700*, 2 July, 1971, Gazette notification, 6 August, 1971.
64. *Commercial and Industrial Bulletin*, 25 June, 1971.
65. Bank of Ghana, *Notice to Banks*, No. 71/2. We understand that the Bank of Ghana subsequently removed the ceiling on loan rates for all but loans to agriculture.

ment of liberalization continued to be exerted.[66] Time was running out if the import liberalization was to be completed successfully.

Yet several problems remained. With cocoa export revenues declining to more normal levels, and with the continued liberalization of imports, the average level of import taxes would have to be substantially higher to hold the de-licenced imports within reasonable bounds. However, the nominal effective exchange rate facing imports was only 4.5 percent greater in 1971 than in 1968, and even lower than in the second (post-devaluation) half of 1967. At the same time the domestic price level had continued to rise in the period since 1968: the consumer price index for 1971 was 21.4 percent greater than for 1968 and 31.2 percent above the 1967 average.[67] In real terms then, the effective exchange rate facing imports was declining at the same time as a major liberalization of imports was proceeding. The entire approach to liberalization had changed. Initially the liberalization had been an attempt to substitute an approximately equivalent price restriction for the discarded quantitative restrictions. Now however the liberalization had become a switch from a closed to an open deficit financed by the cocoa boom and aid donors.

For the industrial sector the haphazard protective structure that had been further complicated by differentiated surcharges continued to reflect historical accidents rather than a carefully designed industrialization strategy.

Non-cocoa exports remained in a state of relative neglect and at the same time unnecessary regulation. Export promotional schemes had appeared and disappeared with monotonous regularity. After two years of promises a scheme was now being implemented, but exporters could legitimately query, would it last? Further, timber and most minor agricultural crops remained under marketing boards of dubious promotional value.

The interest rate changes and related requirements dealing with government securities and expansion of credit, while laudable in intent, were not well designed to achieve the thoroughgoing interest rate reform which would be necessary to unify the segmented capital markets we described in Chapter IV. Further, the new regulations created a serious problem in squeezing the commercial banks' profitability by narrowing the gap between deposit and loan rates. Instead of encouraging a competitive bidding for deposits and active pursuit of non-prime borrowers, the regulations made it unprofitable

66. In partial reply to his critics, J.H. Mensah concluded his budget speech with the Akan proverb, "When the gun is hot it is the stalwart who still carries it near his bosom." *Budget Statement for 1971-72,* Accra, July 1971.

67. Central Bureau of Statistics, *Newsletter,* 20 April, 1972. The national accounts data do not at the time of writing extend beyond 1969, so that we are unable to continue the GDP deflator series.

for banks to accept time and savings deposits, or to make risky loans with high administrative costs.

Finally, the overall deficit budgeted for fiscal year 1971–1972 promised to place continued upward pressure on domestic demand and prices, with the consequent erosion in real effects of the higher nominal deposit interest rates, export subsidies, and import taxes introduced in the same budget.

The evidence was rapidly accumulating. The open deficit without the cocoa windfall could not be sustained. Strong medicine would be required to keep imports under control and to save the liberalization. The trade account surplus which Ghana had run since 1967 no longer existed. Yet it had been used to cover the perennial services and transfers deficits as well as debt service payments plus (in 1970 particularly) repurchase of substantial IMF drawings that had been made in 1966 and 1967. During 1971 these payments continued, along with the trade deficit, with the result that foreign-exchange reserves were reaching a perilously low level: $ 40 million at the end of the third quarter in 1971, or less than half the trade deficit accumulated in the first three quarters of 1971.

Discussions of solutions began within the government; later the IMF was consulted about reopening the standby credit. The Fund apparently was very discreet, not even suggesting that a devaluation would be a necessary component of any package. The government, however, quickly focused on devaluation as a simple single solution, not only to the balance-of-payments problem, but to a variety of other problems: the complex set of policies that had accompanied introduction of liberalization could be abandoned while at the same time saving the liberalization; and the large fiscal deficit could be ameliorated, easing the excessive aggregate demand pressure that was building up.

The solution adopted was devaluation. The decision rested largely with Prime Minister Busia. In the preceding months he had taken increasingly more control over economic decisions, and had become convinced that a devaluation would provide a once-and-for-all solution. The Minister of Finance, J.H. Mensah, was known to oppose devaluation as a "crude and blunt instrument." However, he did not resign when the Prime Minister decided to devalue.

The Prime Minister announced the devaluation in a broadcast to the nation on December 27, 1971.[68] The speech placed major emphasis on the turmoil in the world economy, and suggested that measures which had previously been introduced, such as the surcharges, had been "to try to forestall the economic problems that were moving in on us from overseas."[69] The devalua-

68. The text of the Prime Minister's speech is reported in the *Ghanaian Times*, Tuesday, December 28, 1971.
69. *Ibid.*

tion announcement itself was buried in a list of specific measures being taken "to simplify the increasingly complex structure that the individual measures have tended to create."[70]

The size of the devaluation was almost incredible. The exchange rate against the dollar was hiked from N¢ 1.02 per dollar to N¢ 1.82 per dollar, a rise of 78.2 percent. To this must be added the fact of the dollar devaluation itself, announced a few days earlier, making the depreciation against other currencies even greater. The weighted (by trade shares) average depreciation against all currencies was reported as 92 percent.[71]

The net devaluation was somewhat, but not substantially, smaller on the import side. Surcharges were abolished, lopping off approximately ten percentage points of the gross devaluation. The taxes on other current payments, which had been introduced in August of the same year, were also abolished. No data are yet available on the actual magnitude of collections, but if they were fully enforced they would have amounted to no more than 20 percent on approximately one-fifth of total current account payments. Overall, the net devaluation on the current payments side was about twelve percentage points less than the gross.

On the earnings side, the 25 percent export and tourist bonuses were abolished. The affected items, however, accounted for less than 10 percent of total current account receipts. More important was the decision for cocoa. The producer price was increased by only 25 percent (from N¢ 8.00 to N¢ 10.00 per headload) effective from the next mid-crop season.[72] Similar price increases were promised to producers of other agricultural crops handled by the Cocoa Marketing Board. Other traditional exports, timber and minerals, received the full benefit of the devaluation. The extent of the net devaluation for current receipts thus varied considerably among cocoa, other traditional exports, and nontraditional exports. Overall, however, because of the dominance of cocoa, the net was significantly less than the gross.

A minor concession in the form of increased government wages was also offered to partially offset the price increases arising from the devaluation. The increase ranged from $33\frac{1}{3}$ percent for the lowest-paid to zero for those earning over N¢ 1,000 per year.[73]

Following his outline of the devaluation package, the Prime Minister went on to note that he hoped these measures "will enable the government to carry

70. *Ibid.*
71. Ghana Commercial Bank, *Monthly Economic Bulletin*, December 1971.
72. Most of the current crop had already been sold by the cocoa farmers.
73. This item was vaguely stated in the Prime Minister's speech, so that it could have been taken, and was taken by many, to mean a $33\frac{1}{3}$ percent increase in the minimum wage, although the actual meaning of the regulation was as stated above.

further the policy of liberalization which it has pursued since coming into office." He referred again to the "world-wide economic and financial turmoil," before concluding with a call for exporters "to show greater energy and initiative," and an admonition that "for the rest of us, I know these measures will make imported goods much dearer [but will]...so create more employment for our own people and generally help our economy. This is the best way of promoting self reliance."[74]

Considering the huge size of the devaluation, there was curiously little discussion of it, or attempt to explain why so large a devaluation had been undertaken. Apparently the Prime Minister believed that a massive devaluation would solve the balance-of-payments problem for years to come, leaving him free to concentrate on other issues. More than that, however, appears to have been behind the decision on size. Clearly the first several percentage points would be taken up in substituting devaluation for the surcharges and other taxes and subsidies, so that to have any net impact the devaluation would have to be larger than the existing effects of the recently introduced taxes and subsidies. Beyond that, however, the devaluation was evidently being used as a fiscal device. A major consideration in determining the size of the devaluation was the revenue requirements of the government. With a large government budgetary deficit looming, a substantial devaluation promised to provide a major addition to government tax revenues, particularly via the cocoa export tax. The cocoa export tax schedule is steeply progressive on the cocoa price denominated in local currency. Hence with the near doubling of the local currency, unit-value cocoa exports would provide a substantial boost for government revenue.[75] A further consideration, but clearly not uppermost in the minds of the inner decision-makers, may well have been that aggregate expenditure in local-currency terms would also be dampened in a manner similar to that of the 1967 devaluation. A devaluation about twice as large as that of 1967 would have a substantial deflationary impact on domestic expenditure. In addition to the effects arising from the initial excess of imports over exports (see Chapter V, section 2b, above), one could in this case expect a money demand effect: the public would reduce expenditure to restore the real value of its money holdings.

Whatever the underlying reasons, the rate chosen meant a huge cut in real income for the economy as a whole, with its immediate incidence on heavy

74. The Prime Minister's speech, *op. cit.*

75. At the same time, since government appropriations had already been fixed in terms of cedis, the devaluation would not immediately increase government expenditures. Heavily import-dependent Ministries, such as Defence, thus found the real value of their appropriations slashed.

net users of importables.[76] The aggregate excess demand for real resources that had been allowed to develop over the previous few years had been vented this time on the import binge of 1970 and 1971. It could not now be continued. This situation was in sharp contrast with the position of the economy prior to the 1967 devaluation, where internal deflation and strict limitation of imports had prevailed for the twelve months leading up to the devaluation. Rather, it corresponded more closely to the situation of early 1966 when the contraction of available external resources had meant a substantial cut in real income, in that case via a tightening of import licencing.

The Prime Minister made no attempt in his speech to indicate the magnitude of the cut in real income that would now be necessary, perhaps recognizing the parallel between his situation and that of Nkrumah in January 1966. The import volume for 1972 would have to be reduced by at least one-third of the 1971 volume, and perhaps more, if forthcoming obligations, particularly the large debt-service payments, were to be met. Whatever the set of policies adopted, that was the magnitude of the task, and that was the magnitude of the shock to the economy.

The shock proved to be too much for major segments of the Ghanaian society. Existing dissatisfaction with the Busia government was crystallized, and on January 13, 1972, a previously little-known colonel of the army, I.K. Acheampong, seized the opportunity to lead a successful military coup while Prime Minister Busia was out of the country for medical treatment. High on the list of justifications for the coup was "the inefficient management by that [Busia] Regime of our economy.... It [the coup] was staged...to save the country from total economic collapse."[77]

The new government quickly announced that it would reexamine both the devaluation and Ghana's external debt problem. In the interim it introduced an import-subsidy program on some essential consumer goods (milk, sugar, baby food, sardines, machetes, bar soap, and cod fish), and ordered that these commodities were to be sold at pre-devaluation prices.

Twenty-two days after the coup, Colonel Acheampong, Chairman of the National Redemption Council, and Commissioner for Finance and for Economic Affairs, announced a major new set of economic policies. The key-

76. It is important to recognize that the increased prices of importables arising from the devaluation will normally affect both purchases and sales by the same proportion. Hence the devaluation has a net taxing effect only on net purchasers of importables. Net sellers of importables, such as domestic manufacturers of tradeables using imported materials, will on the other hand be net gainers from the devaluation. The view that a devaluation has a net taxing effect on them via increased costs of importable inputs is thus purely myopic.

77. Colonel I.K. Acheampong, quoted in the *Daily Graphic*, Accra, 18 January, 1972.

stone was a selective debt repudiation, accompanied by a revaluation of the cedi to N¢ 1.28 per dollar, and a reimposition of strict import licencing.[78]

Even selective debt repudiation was something neither the National Liberation Council government nor the Progress Party government of Prime Minister Busia had been willing to do. Yet the total annual debt service burden was amounting to some 20 percent of normal export earnings. Creditor governments guaranteeing suppliers' credit had indicated no willingness to extend the repayments over a longer period without charging moratorium interest at approximately 6 percent. In both of his budgets the previous Finance Minister, J.H. Mensah, had complained about the lack of sympathy on the part of the creditor governments, and had staked out Ghana's position as requiring "a long term settlement which allows the economy of Ghana to begin restoring its basic strength before payments have to be resumed," and does not increase the level of debt by means of moratorium interest.[79]

Colonel Acheampong now reiterated the Ghanaian position, "that our foreign exchange resources simply could not at once sustain the debt service obligations and meet our minimal development targets," and complained that "the creditor countries...have proved singularly unsympathetic and unresponsive to our well documented case."[80] Short-term and long-term debts were validated. However, he came down hard on suppliers'-credit debt. He: (a) repudiated "all contracts which are vitiated by corruption, fraud and other illegality," including those with a specific list of companies having an original face value of $ 94.4 million, while at the same time offering "to go to arbitration in respect of all disputes arising from our action," with the IBRD's International Centre for the Settlement of Domestic Disputes as arbiter;[81] (b) refused to accept the rescheduling entered into by the two previous governments, particularly the $72 million moratorium interest; (c) set out conditions which suppliers' credits contracted before the overthrow of Nkrumah must prove in order to establish the validity of their claims (valid contracts not vitiated by fraud, corruption or other illegality, and only for projects technically and economically viable and productive – the onus of proof being on the creditor); and (d) unilaterally rescheduled the remaining suppliers'-credit debts on terms similar to the IBRD's soft-loan window, the International Development Association.

78. *Vis-à-vis* the original parity of N¢ 1.02 per dollar, this meant a 25 percent devaluation against the dollar, and a depreciation (weighted by trade shares) of 36 percent against all currencies. In addition, Colonel Acheampong let stand several measures which Busia had announced at the time of the December 1971 devaluation, including the abolition of surcharges, taxes on invisibles, and the national development levy.
79. *Budget Statement* for 1971–1972, p. 21.
80. *Ghanaian Times*, 7 February, 1972.
81. *Ibid.*

It was a dramatic and, many would argue, a long overdue move against this all-too-common carpetbagger device of selling capital equipment. However, this alone would not provide the magnitude of relief required for Ghana's balance of payments. At best it postponed about 10 percent of Ghana's foreign-exchange bill over the next few years.[82] Far more severe cuts in foreign-exchange use were required, and for this Colonel Acheampong chose licencing, accompanied by a revaluation of the cedi.

The experiment with import liberalization was ended. The gains from import liberalization did not appear sufficiently large to make the shock of the massive December 1971 devaluation acceptable as a means of saving it. Yet that devaluation had been assigned a task far greater than saving the liberalization. Not only had it been used as a substitute for the complex set of liberalization taxes and subsidies, but it had been used simultaneously in an attempt to achieve two other objectives: an enormous cutback of imports, and reduction in the accumulated excess demand for real resources.

The most unpopular aspect was the reduction in real income it implied. Yet the liberalization and the devaluation bore the brunt of the criticism. They were the scapegoat, while the true culprit – the previous set of policies which had been designed to obtain a higher level of consumption for Ghanaians than the available resources would permit – escaped detection. For the new government the unpleasant task of facing up to the necessity of cutting back the standard of living remained. It would now have to administer an import program via licencing of approximately the same magnitude as had been implicit in the original devaluation. Hence the immediate real income difference between the two schemes was nil.[83] Curiously, though, a given volume of foreign-exchange use at a lower cedi price to the initial recipients seemed preferable to the same volume at a higher cedi price.

How successful the new set of policies would prove to be remained uncertain. One thing was certain: import liberalization was finished.

5. Import liberalization – a total failure?

In the ultimate test – survival – the import-liberalization experiment failed. Yet such a test provides us with no clue as to the source of the failure.

82. The immediate net gain was also reduced by the response of those creditor nations who were also aid donors, some of whom tended to reduce their long-term aid commitments.
83. While this is true for the very short run, the import program under licencing in the medium term will be smaller than under the devaluation because export earnings will be smaller.

Was import liberalization inherently inappropriate in the Ghanaian context? Or was it a suitable policy poorly implemented? Or were there mistakes outside the realm of liberalization that brought about its failure?

A positive answer to each question could readily be constructed, depending largely on the breadth with which liberalization is defined and which instruments of economic policy are taken as given. By selecting the appropriate set of assumptions, either explicitly or implicitly, about what is given and what is not, it is possible to prove a great variety of conflicting propositions about the import liberalization. Such is the nature of the political debate that ensues from the Ghanaian liberalization experience.

Our purpose here is not to enter the political debate. Rather, the purpose of this section is to elucidate the economic issues involved. In particular, it is useful to know which elements of the experiment could be considered successful, and which failures. And more importantly, our purpose is to draw whatever lessons we can from the experience. We begin with a narrow frame of reference in which we consider only the transfer of items from the Specific Licence (SL) list to the Open General Licence (OGL) list.

We have seen how the absolute value of OGL imports grew over the period 1967 through 1970 (Table V-11). Hidden within this overall growth were the initial reaction to placing an item on OGL and subsequent growth of items remaining on OGL, mixed in different proportions each year. At the same time it is important to note what was happening to imports that were still under licence. To sort out the details we have separated the items placed on OGL for a given year and traced the performance of those items only through the year before they were placed on OGL, and through as many subsequent years as possible. The results are contained in Table V-12.

Beginning with the items placed on OGL in 1967, we see that the value of imports of those same items was slightly less during their first year on OGL than during the previous year, while they had been under licence, and that imports of those items did not grow substantially over the subsequent years. Since the items involved were mostly food, pharmaceuticals, and spare parts, it is not surprising to find that licences had previously been issued virtually on demand.

The items placed on OGL for the first time for 1968 encompassed a number of chemicals (including manufactured fertilizers), manufactures, and machinery. During the first year on OGL, these items increased by 11.2 percent over the previous (licence) year, which is high in terms of the historical growth of imports, but substantially lower than the 16.6 percent overall increase in imports that year. They continued to grow during their second and third years on OGL, but still at a slower rate than total imports.

Items added to OGL for 1969 began to include substantially more manufactured items that had formerly been subject to stricter licencing. The result

Table V-12
OGL imports* year prior to placing on OGL and subsequent years (in millions of new cedis)

First placed on OGL for year	Value of imports during cal. year indicated					Change from previous year							
	1966	1967	1968	1969	1970	1967		1968		1969		1970	
						Value	Percent	Value	Percent	Value	Percent	Value	Percent
1967	8.2	8.0	7.3	9.5	9.4	−0.2	−2.4	− 0.7	− 8.8	+ 2.2	+30.1	− 0.1	− 1.1
1968		43.0	47.8	53.8	60.5			+ 4.8	+11.2	+ 6.0	+12.6	+ 6.7	+12.5
1969			24.1	31.2	40.8					+ 7.1	+29.5	+ 9.6	+30.8
1970**				27.9	50.6							+22.7	+81.4
1970 Aug. additon					21.5								
Imports new to OGL	0	8.0	47.8	31.2	72.1	+8.0		+39.8		−16.6		+40.9	
Imports previously on OGL	0	0	7.3	63.3	110.7			+ 7.3		+56.0		+47.4	
Total on OGL	0	8.0	55.1	94.5	182.8	+8.0		+47.1		+39.4		+87.3	
Licenced imports	250.1	246.3	241.5	244.9	218.2	−3.8		− 4.8		+ 3.4		−26.7	
Total imports	250.1	254.3	296.6	339.4	401.0	+4.2	−1.7	+42.3	+ 16.6	+42.8	+14.4	+61.6	+18.1

Notes: * OGL and total imports exclude Valco imports of aluminum. Excluded from OGL imports are several minor items, such as headloads of foodstuffs, single copies of books and periodicals, and some spare parts which are not separately identified in the *External Trade Statistics*.

Sources: See Table V-11.

** Imports first placed on OGL for the year 1970 refer to those added effective January 1, 1970 and early in the year: the August 1970 additions are excluded.

was a more substantial jump in imports of those items over the licenced value of the previous year – and a further increase of about the same proportion in the next year.

The final year for which we have the detailed trade data necessary to make these calculations is 1970. The items added for 1970 were entirely food. (We are excluding the items added in August 1970.) The result was a very substantial surge of delicenced imports.

At the same time as newly delicenced imports were experiencing considerable growth (1969 and 1970), the volume of SL imports was not adjusted to compensate for the switch of items to OGL. Thus in 1969 the licence budget no longer had to provide for the N¢ 24.1 million (1968 value) transferred to OGL. Instead of delicencing by this amount, or otherwise making some allowances for reasonable growth among the remaining items on SL, the total value of licenced imports grew by N¢ 4.4 million. The growth of imports of the items remaining under licence was thus N¢ 27.5 million, or a 12.7 percent increase over those same items in 1968.

For 1970 the transfer of items to OGL and the change in SL imports is not as clear because of the addition to OGL of several items in August 1970. Excluding those items added in August, the previous year's value of newly delicenced imports amounted to N¢ 27.9 million, which is only slightly larger than the decline in SL imports for all of 1970. However, this substantially overstates the reduction of licencing in response to the transfer of items to OGL because some portion, probably about one-half, of the value of items transferred to OGL in August would already have been issued with licences, and at the same time those added in August 1970 had been imported under SL in 1969. Hence we again find a gap between the value of items transferred to OGL and the expected reduction in SL imports.

A simple standard against which we may judge this growth of SL imports is the cumulative value of delicenced imports, using the value of the year prior to delicencing. This is a minimum value because it does not allow for the growth which would have taken place in delicenced imports had they remained under licencing. Items switched to OGL in 1969 and in 1970 had a total value of N¢ 52.0 million in the year prior to delicencing, yet over this same period the value of SL imports fell by only N¢ 23.3 million. In other words, over one-half of the effect of transfer from SL to OGL was absorbed by increased licences for those items which remained on the SL list.

What lessons can be drawn from this experience? Two major influences were at work to increase the flow of imports: the release of pent-up demand as items were transferred from SL to OGL, and overall aggregate demand growth, which could now be vented on imports rather than domestic prices. Potential restraining influences on OGL imports were surcharges plus aggregate expenditure control – and on the remaining imports, licences. The evidence strongly suggests that none of the restraining influences was adequate.

The surges of OGL imports in 1969 and 1970 to satisfy the pent-up demand indicate that surcharges were far from adequate to capture the previous quota premia and hence contain that demand. Further, the subsequent high growth rates of OGL imports suggest that aggregate demand pressure remained too strong to keep freed imports from growing too rapidly. This placed a serious strain on the import liberalization. Such a strain by itself would have been temporarily tolerated. However, at the same time as freed imports were increasing substantially, the stringency of licencing was greatly relaxed, allowing imports still under SL to take up much of the value of items transferred to OGL. This Ghana could not afford simultaneously with the chosen approach to OGL. In sum, the rapid growth of imports was due both to an expanding OGL system with inadequate restraints in the form of surcharges and control over aggregate demand, and to a licencing system with inadequate restriction of those items still within its purview.

Difficult and complex as was the basic task of freeing imports from licencing, economic policy is made in a far broader framework. Numerous objectives must be considered and numerous instruments employed. Liberalization of imports cannot be treated in isolation from this broader framework of government economic policy. Because liberalization was only one of several objectives, and because of the limited number of effective instruments available, it could therefore be argued that liberalization had to be compromised in a less than optimal solution. Such an argument, however, ignores an important trait of the broader framework of economic policy. All instruments are now variable, and it is therefore potentially possible to assign instruments to targets on the basis of the two important principles: (a) there should be a number of effective instruments at least equal to the number of desired independent targets; (b) instruments should be assigned to targets on the basis of their relative effectiveness in affecting the targets.[84] Without such an assignment of instruments to targets it becomes far more difficult, if not impossible, to achieve the desired overall solution. While this is not the place to launch an extended discussion of the theory and application of general economic policy in Ghana, two major problems associated with the import-liberalization experience suggest that the failure of liberalization was in part due to the broader failure of general economic policy in Ghana.

First, throughout both the period of restriction and the period of liberalization there was a serious proliferation of policy instruments. By the late 1960's the accumulated assortment of instruments, acting in uncertain ways

84. These are, of course, the well-known Tinbergen and Mundell points. For the former, see J. Tinbergen, *The Theory of Economic Policy*, North-Holland, Amsterdam, 1952, Chapter 5; and for the latter, R.A. Mundell, *International Economics*, Macmillan., New York, 1968, Chapter 14.

on a variety of targets, made the effective formulation of economic policy an incredibly difficult and complex task. The direction and magnitude of the effects of the introduction of new policies and changes in old ones was frequently uncertain, and occasionally perverse. The task of planning and coping with such a complex and detailed system was far beyond what could reasonably be expected from even the best possible cadre of economic planners. Caught up with the hopeless task of coping in the small, policy formulation and implementation in the large was inevitably neglected. As a result, it is relatively easy to look back, as we do now, to find serious errors in the formulation and implementation of major policies. Two examples stand out: the differentiated surcharges, and the size of the 1971 devaluation.

The primary objective of surcharges introduced in 1970 was to dampen the pent-up demand for the newly freed imports, yet secondary objectives which could have been achieved by use of other instruments also played a role in the specification of the surcharge rates, with the consequence that the surcharges accomplished neither the primary nor the secondary objectives.[85] To achieve the primary objective while minimizing the disturbance of other policies, it would have been far more appropriate to employ uniform surcharges on freed items. A secondary objective, to discriminate between luxury and other imports (which the differentiated quota premia reflected) could have been achieved by the more appropriate instrument of indirect taxes applied to both domestic and imported goods.

In a similar manner, the major objective of the 1971 devaluation was to restore external balance while substituting devaluation for other equivalent (and therefore not independent) instruments. But because the 1971 devaluation was from an open deficit situation, it was also used in an attempt to achieve a secondary objective, internal balance. To achieve both objectives with the single instrument the devaluation had to be much larger than necessary to achieve the primary objective alone, which ended in shocking the economic and political system beyond acceptable limits. This contrasts with the 1967 devaluation, which had been assigned a considerably more limited task – restoration of external balance from a closed deficit position. And it accomplished this task to the extent possible. It had not been used also to achieve a massive cut in real income, for that had been done prior to the devaluation and was thus not associated with devaluation *per se*.

This leads us to the second important issue, the periodic jolts administered to the economy since the beginning of the 1960's. As disequilibria built up, typically little was effectively done to alleviate the situation until the last possible moment. Then, because the massive size of the disequilibrium re-

85. See section 4 above.

quired an equally massive adjustment, a drastic change had to be introduced. Such fillips produced severe shocks to the Ghanaian economy and society at large, so severe in fact that twice they were quickly followed by military coups. It is worth emphasizing that the shock of readjustment was the problem, not devaluation, which was merely the instrument employed by Busia in 1971 to implement the readjustment. Licencing and austerity had been used by Nkrumah in early 1966 to bring about readjustment following the import binge of 1965. Although the instruments were different, the shock to the society and the consequences for the national leaders were the same.[86]

Regardless of the device employed to bring about adjustment, it is clear that when adjustment became necessary large discrete changes were far less acceptable than small continuous changes of the same total magnitude. Successful formulation and implementation of economic policy requires more than determining the correct instrument and the correct magnitude: it also requires a careful attention to the time path of its incidence. Without such attention, the shocks administered by the inevitable adjustments were unacceptable.

The major lessons of the import-liberalization experience are clear. In the face of rapidly growing aggregate demand financed by an unusual cocoa windfall, and without adequate surcharges, by mid-1970 the liberalization had been carried too far. In broader terms, liberalization did not succeed because economic policy formulation and implementation failed. Bogged down in the complexities of a detailed control system, the government committed periodic policy blunders, placing the liberalization in jeopardy, unable to withstand the inevitable shock of massive readjustment.

86. The source of financing for the disequilibrium does not appear to have had a significant influence on the outcome. A careful examination of the balance-of-payments accounts (Table A–3a) suggests that the rapid growth in the absolute size of current account debits was financed differently in the Busia period than in the Nkrumah period. In 1970 the increase in current account debits over 1969 was more than financed by increased merchandise earnings, mostly due to the cocoa windfall. In 1971, when merchandise earnings returned to their 1969 level, the current account debits remained at about their 1970 level without the available financing of extra merchandise credits. Financing came largely from increased credits on the monetary authorities' account (two-thirds) plus increased capital account credits (one-third). Contrast this experience with the two cases of rapidly expanding current account debits under Nkrumah. In both 1960–1961 and 1965 the increased current account expenditures were financed only minimally by additional current account earnings, and only about one-third by increased monetary account credits. The major source for Nkrumah was increased capital account credits – i.e., increased external borrowing.