The Study of Political and Economic Reforms in Ghana

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THE STUDY OF POLITICAL AND ECONOMIC REFORMS IN GHANA

by

John L. Adedeji

A Thesis
Submitted to the
Faculty of The Graduate College
in partial fulfillment of the
requirements for the
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The idea for the format and methodology for this Master's thesis was conceived after my first meeting with Dr. Lawrence Ziring, when I signed up for a Comparative Politics course taught by him in the 1998 Summer Semester. I had taken several political science courses before in the Master of Arts program, but none was as informative and compelling as this one. Dr. Ziring encouraged the class to proceed on a comparative exercise by comparing a developed with a developing country in order to analyze the similarities and dissimilarities of these two countries, also choosing from a range of areas of study.

My area of study was political economy, and the countries I chose were the United States of America and the Republic of Ghana. Consequent to this exercise, my thesis topic is “The Study of Political and Economic Reforms in Ghana,” and I have had an interesting experience completing this research.

I wish to acknowledge the assistance of Dr. Ziring, not only in agreeing to chair my Thesis Committee, but also for suggesting the two other members: Dr. Peter Kobrak, Professor of Public Administration, School of Public Affairs and Administration; and Dr. Sisay Asefa, Professor of Economics, Department of Economics. They have been very helpful in their comments and advice on my research proposals and thesis drafts over the past few months, despite their very busy schedules. I owe them a great deal of gratitude.

It is my hope that the educational pursuit I have embarked upon and the assistance of the committee will yield good results. Once again I take this
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John L. Adedeji
THE STUDY OF POLITICAL AND ECONOMIC REFORMS IN GHANA

John L. Adedeji, M.A.
Western Michigan University, 1999

The dual transition program of Ghanaian political economy was put in place as a result of Ghana's huge external debts, its balance of payments problems, and the critical shortage of foreign exchange resulting from years of financial management by seven regimes (civilian and military) that ruled the West African nation since its independence in 1957. Taken together, these problems tilted the balance of power in favor of external actors, including the International Monetary Fund and World Bank.

The study focuses on the dual strategy of macroeconomic measures and structural adjustments. The study then evaluates: (a) the policy components of the political and economic reforms; (b) the response of the Ghanaian state and society to market-oriented as opposed to state-led development; (c) the relationship between the state and its creditors, including the International Financial Institutions; and (d) the effect of the relationships on the interaction between the state and society in the domestic politics of Ghana.

The study also analyzes the power dynamics in Ghana relating to the nature of economic and political change, how the structural adjustment program stimulated economic growth under a liberal (albeit military) regime, and how the change integrated the Ghanaian state into the capitalist world economy. Finally, the study shows how the adoption of economic and political reforms helped Ghana on the road to the nation-state status.
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CHAPTER I

INTRODUCTION: THESIS METHODOLOGY
AND THE CASE STUDY APPROACH

Political economy is the interaction of politics and economics in an environment where economic forces influence political processes and behavior. The political process and economic decisions resulting thereby affect and, in many cases, determine the allocation of economic resources, which are often scarce. The conventional wisdom on the relationship between political and economic reforms, or more aptly, between democracy and development in Third World countries, such as Ghana, is entwined in the “cruel dilemma” thesis, which contends that there is a trade-off between democracy and economic development, and that authoritarianism is more compatible with rapid economic development.

Another research tradition argues that democracy does not necessarily hamper economic development, but may actually advance it. This is in line with the claim in Western public policy circles and offered by some theorists that there is a positive relationship between liberal economic and political reforms and the expectation that economic growth and a democratic government could be jointly achieved through the implementation of the Structural Adjustment Program (SAP) and the political transition program.

According to Okome (1998), where authoritarian tactics are utilized, as in Nigeria, the commitment to combine SAP and a return to democratic rule by a military government may translate into a successful transition to democracy and the
achievement of economic growth and improved general welfare of the state. In an article entitled “Ghana: 2000 and Beyond,” Chibber and Leechor (1993) stated that the Ghanaian economy stands at a crossroad, and that its adjustment program is one of the most successful in sub-Saharan Africa. They contend that since 1983, two years after the Provisional National Defense Council (PNDC) regime came to power, a decade of stabilizing policies has yielded broad budget balances, strong export growth, a reasonable external position, and substantial structural reforms, including some privatization and closures of loss-making publicly-owned companies. Even so, the authors observed, real growth has remained at only about 5 percent a year.

Although per capita income rose at about 2 percent a year to end the 1980s at $390, Ghana is still among the world’s poorest countries. At this growth rate, they opined, the average poor Ghanaian would not cross the poverty line for another fifty years, and this was not good enough.

This study explores the causes and outcomes of the dual transition program of the Ghanaian political economy. It also focuses on Ghana’s huge external debt, its balance of payments problems, and the critical shortage of foreign exchange that resulted from these problems that tilted the balance of power in favor of external actors, including the International Monetary Fund (IMF) and the World Bank. This dependency made the availability of funding conditional upon the adoption of liberal economic and political reforms. These reforms involved a dual strategy of short-term macro-economic stabilization measures (balancing the budget, tighter control over credit, curbing inflation, etc.), and structural reforms (trade liberalization, privatization, deregulation, etc.).

The relevant analytic issues that raised in the study include the policy components of the political and economic reforms; the response of the Ghanaian state
and society to market-oriented, as opposed to state-led development strategies; the relationship between the state and its creditors, including the International Financial Institutions (IFIs); and the effect of these relationships on the interaction between state and society in domestic politics. In short, the study focuses on how power relationships determine the nature of economic and political change, how SAP reforms are expected to stimulate economic growth under a liberal economic regime, and how the economies of states such as Ghana can be integrated more fully into the capitalist world economy. The penultimate goal is to show how capitalist development relates to democracy.

Effectiveness of Adjustment Programs

To appropriately answer the question “Have adjustment programs succeeded?” one needs to take into account a number of factors. First, many programs have been in operation for only a few years, and despite earlier expectations, there is now widespread agreement that the process of adjustment will be protracted. According to Haggard and Kaufman (1992), on the question of how to implement SAPs, there should be the utilization of a “bureaucratic change team” that is insulated from political pressures. In this regard, they attributed the successful initiation of economic reforms to “rulers who have personal control over economic decision-making, the security to recruit and back a cohesive ‘reform team,’ and the political authority to override bureaucratic and political opposition to policy change” (p. 9). In the case of Ghana, the nature of the many changes was such that it would be foolhardy to expect immediate results.

Second, it is difficult to disentangle the effects of adjustment programs from other factors—ranging from world market conditions to the local weather. Africa’s
adjustment program was undoubtedly hindered by the slowing economic growth in the West at the end of the 1980s. Also, improved weather conditions played a role in the better agricultural performance in the second half of the 1980s.

Third, very few African governments seriously implemented sustained multi-sector adjustment programs. In many countries, the commitment to adjustment has not been wholehearted; some governments parroted the terminology desired by the international community only in order to gain access to new loans. Soon thereafter, they defaulted on their commitment. Waterbury (1989) observed that “the successful implementation of the SAP depends on the skill and will of decision-makers in the sequencing of policies, strategies and incentives” (p. 74).

Use of Aggregate Data to Measure the Effect of SAPs

The use of aggregate data to judge the effectiveness of adjustment programs in order to show their utility is another problem. A more pragmatic approach would have been to examine in detail the experiences of individual countries. Ironically, the country that is often pointed to as having implemented a multi-sector adjustment program for a sustained period of time is Ghana. Rothchild (1991) observed that the IFIs have used Ghana as a showpiece for their programs and have supported it far more generously than most other countries. He states Ghana benefited from five IMF programs and more than twenty program loans from the World Bank in the 1983–1989 period. He then concludes that, according to some indicators, Ghana has been remarkably successful.

Domestic production grew 6 percent per year from 1984–1989, a rate sufficient to bring an average per capita income of over 3 percent each year. There was much good news. The rate of investment nearly doubled in this period, and two-
thirds reduced the budget deficit. Export volume rose substantially, enabling more modest rise in imports.

There were also some negative trends. The total debt rose from $1.3 billion in 1980 to over $3.1 billion by the end of the decade, and vigorous attempts to attract foreign investment brought a meager response than other financial assistance for gold and timber exports. Domestic investment has been held back by high interest rates and by a shortage of foreign exchange needed to purchase necessary machinery and spare parts.

According to Chazan, Mortimer, Ravenhill, and Rothchild (1994), gains from increases in exports of the major agricultural commodity cocoa were offset by falling prices on the world market. In their view, this points to a contentious issue in Africa’s adjustment programs: “. . . policies that are beneficial for one country may not be beneficial for a group of countries if they all pursue them simultaneously” (p. 230). To them, this is known as the “fallacy of composition” problem. In my view, its relevance is that Ghana’s encouragement of increased production of cocoa occurred when other countries, also under balance of payments pressure, and indeed sometimes acting under advice from the IFIs, simultaneously increased their output of cocoa. Thus, although world cocoa prices rose by a third between 1983 and 1987, these same prices collapsed in 1988.

The other important element is the social cost of structural adjustment. The Ghanaian case is of paramount importance because Ghana is one of the few countries to undertake a program that specifically addressed the social cost of adjustment. Historically, Structural Adjustment Programs (SAPs) inevitably have had significant redistributive effects. According to a World Bank Report on Ghana in 1984, there are
likely to be significant negative effects in the short run from adjustment. This point will be elaborated upon more fully in the study.

The primary effect of structural adjustment is that expenditure reduction policies often result in lower real wages and consumption levels. Second, public sector workers are often retrenched as part of expenditure reduction measures. Third, trade liberalization and tariff reforms may result in employment losses if inefficient enterprises cannot withstand the new competition. Lastly, the poor may face higher prices, especially for food, and reduced access to social services due to cuts in social expenditure.

The Hypotheses of the Study

The major questions to be addressed in this thesis are fivefold. First, what would it take for Ghana to significantly become a middle-income country by 2007, the 50th anniversary of Ghanaian independence, and what would it need to ensure that the average Ghanaian would have crossed the poverty line by then?

Second, have decentralization policies undertaken by successive governments in Ghana since independence in 1957 been similar or different, and how have the concern for and preoccupation with decentralization been implemented, not only as a necessary condition of economic, political, and social development, but also as the way of achieving various political objectives, in terms of decentralization of power and political legitimacy?

Third, did President J. J. Rawlings, who first came to power in 1979 as the leader of a military coup, perform better than his predecessors in carrying out a reform program to restore civilian rule, and how did he manage the transition from military rule to multi-party democracy?
Fourth, how did the leaders of the “people’s revolution,” especially the Provisional National Defense Council (PNDC), fare better in reconciling their socialist policies with IMF/World Bank SAP demands?

Fifth, are the chances for increased foreign and domestic investment better in Ghana in 1990s and beyond, and what role would the Economic Community of West African States (ECOWAS) play as a unifying political body in the sub-region of West Africa?

The Thesis Methodology

The thesis is structured around a case study approach by exploring Ghana’s distinct history, political development, and how the dual transition efforts employed in Ghana validate the use of a case study approach to explain these phenomena. According to Eckstein (1992), “. . . single case studies also can have powerful, even conclusive theoretical results” (p. 117). Ghana’s experience as a nation lends itself to a historically sensitive method, because it reveals causal consequences and how they relate to existing political and economic reforms, and it helps to explain the given cases in a theoretically coherent and consistent manner.

The drawbacks to the use of case study approaches are that they suffer from the problem of too few cases, too many variables, and a lack of theoretical vigor. However, the empirical richness that can be achieved from a case study can be ordered using a theoretical framework, which builds on past research. This increases the validity of the study. The methodology then follows a long-standing tradition within political economy, which focuses on “actors . . . whose power is grounded in the control of economic and organizational resources and/or coercive force and who vie with each other for scarce resources in the pursuit of conflicting goals” (Eckstein
1992, 169). As we shall see, the political wrangling between the Provisional National Defense Council (PNDC) led government and other political organizations almost derailed the movement toward democracy in Ghana during the late 1980s and early 1990s.

The Study Format

The study is divided into six chapters. The first chapter is the introduction. It explains the reasons for the study of political economy of Ghana, a developing country in the sub-Saharan region of Africa, with the attendant problems and vicissitudes of a nascent nation-state. The chapter also focuses on the plight of developing countries when they embark on Structural Adjustment Programs (SAP) and analyzes why some fail and others succeed. Finally, it then explains the thesis methodology and the reasons for using a case study approach.

The second chapter examines the relevant literature on Ghana’s political and economic development in historical perspective. An evaluation is made of the implementation process which, when seen as the main arena in which individuals and groups are able to pursue conflicting interests and compete for access to scarce resources, can also be the main conduit of interaction between the government, citizenry, public officials, and their constituencies. The focus here is the initial contact of Ghana (known as the Gold Coast before independence) with Europeans; its colonial experience—first as a protectorate, then as a colony put under indirect rule; the struggle for self-rule; and the eventual attainment of independence in 1957. The institutional structure of indirect rule will also be elaborated upon, to the extent that it influenced the various implementation programs put in place after independence. The literature on Ghana’s political and economic development is examined here. This
is done to show how Ghana’s political and economic reforms encountered obstacles and were forced to make several twists and turns until the country finally achieved a more successful path. Reference is made to Joseph Ayee’s (1994) work, *An Anatomy of Public Policy Implementation: The Case of Decentralization Policies in Ghana*, in which he observed that “when a policy depends on so many actors and participants with differing perspectives, there are bound to be numerous possibilities for disagreement and delay which will reduce the plan’s successful implementation” (p. 18).

The third chapter examines Ghana’s progress as a nation-state. The Nkrumah presidency (1957–1966), its downfall, and the first military coup in Ghana in 1966 are explored. The visions of political and economic development are evaluated. The socioeconomic problems facing Ghana during the military/civilian regimes are fully examined with a view to understanding the events that led to the emergence of Fl. Lt. J. J. Rawlings on the political scene in 1979, the brief civilian interregnum of Dr. Hilla Limann, and the re-emergence of Rawlings in the 31 December Revolution.

The fourth chapter is an assessment of the effect of political economy on the dual transition program in Ghana, and the external (or Western) influences that will make or break such a move within the framework of politics and world economy. The chapter also evaluates the public policy implementation process which, when seen as the main arena in which individuals and groups pursue conflicting interests and compete for scarce resources, can also be the main conduit of interaction between the government and citizenry on the one hand, and public officials and their constituencies on the other.

The fifth chapter will shed some light on the nation-building efforts of the Provisional National Defense Council (PNDC) government of Fl. Lt. Jerry John
Rawlings, and trace the political and economic unrest in Ghana during the 1980s and early 1990s until the elections of 1992. The Ghanaian experience will also be explored in terms of the present constitutional arrangement, the 1992 Constitution, the Constituent Assembly, and the political system that was established, especially as it relates to the importance of political institutions—i.e., holding regular elections, the development of a free press, instituting an independent judiciary, guaranteeing of individual rights, and safeguarding the opportunity for Ghanaians to disagree with public policies that they feel are not in their best interest—in short, the building of participatory democracy. Lastly, the chapter examines the development challenges facing Ghana in the 1980s and 1990s, by analyzing the challenges and opportunities facing the sub-Saharan African region, and seeks to determine whether Ghana can achieve middle-income status by the year 2007—the 50th year of its independence.

The sixth chapter is the conclusion. It explores the challenges facing Ghana in the last year of the Rawlings presidency and looks beyond the 2000 elections to determine if Ghana can sustain its experiment with democracy and also sustain economic growth. The chapter is divided into two distinct parts. The first part stipulates the economic processes that guarantee economic and viability; and the second part enumerates the political steps for maintaining the 1992 Constitution, sustaining participatory democracy, reducing population growth, increasing the quality of life of Ghanaians, and encouraging Ghana to play a greater role in the political stability of the region. Finally, the chapter reviews the main points of the study and the arguments made to support the analysis.
CHAPTER II

GHANA’S POLITICAL AND ECONOMIC DEVELOPMENT: A HISTORICAL PERSPECTIVE

The discussion of African economies in historical perspectives has involved many writers on Africa since the 1970s, who base their arguments on the underdevelopment literature, which had its origins in the writings of Paul Baran (1967). Unfortunately, many of the applications of the approach on Africa relied heavily on one of the least sophisticated approaches, the “development of underdevelopment” hypothesis associated with Andre Gunder Frank.

Frank had followed Baran in arguing that an essential feature of the capitalist world economy is the extraction of surplus resources from non-industrialized countries. He contended that, rather than being in an original state, i.e., undeveloped, they are actually worse off because of their contact with Western capitalism. He also observed that they have been “underdeveloped” as a result, and economic surplus has been expropriated, depriving underdeveloped countries of the capital necessary for economic growth.

Underdevelopment and the African Society

Underdevelopment is perceived as being implemented through an alliance between elites in the industrialized countries (the metropole or center) and elites in the underdeveloped countries (the periphery), who, it is assumed, have been “bought off” by the “international monopoly capitalism” and will always act in their interest.
The attractiveness of the hypothesis is evident because of the enthusiasm with which some Western scholars on Africa embraced it in the years after independence. Acting purely as a reaction to the racist literature of the early colonial period, these scholars justified the "civilizing mission" of European imperialism and portrayed African societies as primitive and the population as lazy, characterized by disease, illiteracy, short life span, early aging, and death.

Palmer (1997) describes traditional (African) societies as being characterized by isolation, and geographically, individuals are clustered in scattered villages or nomadic units, each an island unto itself. Communication and transportation, he continued, are rudimentary and interaction among tribes and villages is minimal. He also observed that this geographical and social isolation creates a sense of "intellectual isolation," and that traditional individuals, being isolated and illiterate, are forced to rely upon beliefs, customs, and traditions of their kinship units for information and guidance.

Against the argument that Africa's economic backwardness was a result of some character deficiency on the part of the inhabitants of traditional societies or economic mismanagement by governments, the underdevelopment approach places the blame primarily on factors external to Africa. In my view, its pessimistic evaluation of Africa's political and economic prospects stands in sharp contrast to the optimism that has characterized much of the modernization literature of the 1960s and 1970s.

Any serious discussion of the impact of colonialism, according to Chazan et al. (1994), needs to pose the counterfactual, i.e., what would have been the situation today if Africa had not been subjected to colonial rule? The problem with counterfactuals in the social sciences is that they cannot be answered with a degree of
certainty. One of the weaknesses of the underdevelopment theories, the authors observe, is that they share an implicit counterfactual scenario that suggests that, in the absence of colonial exploitation, African countries would have entered on a path of self-sustaining economy.

Africa in the Pre-Colonial Era

Historically, pre-colonial Africa was far from static. Kingdoms and indeed vast empires encompassing many different peoples waxed and waned. Ethnic identities emerged and were redefined as a result of conquest and assimilation. But there was little fundamental change in the mode of production in pre-colonial Africa, because the types of technological innovation that occurred in Europe in the period from the sixteenth century onward lacked an African counterpart. African societies at the time of colonial conquest had not harnessed water, wind, or animal power for human needs; production was almost entirely dependent upon human muscle. The relative abundance of land in most areas of the continent was not exploited for technological innovation to enable more intensive agriculture to occur.

According to Duignan and Gann (1975), there was no agricultural revolution similar to the one in Europe to generate the economic surplus essential for industrialization, and because transportation and storage facilities remained rudimentary, they contend there was little encouragement to produce an agricultural surplus. The absence of major technological breakthroughs also constrained the development of manufacturing. Furthermore, despite the fact that many African societies had great skills in metalworking, they did not develop the furnaces capable of generating high temperatures that played a significant role in the European industrial revolution. The authors concluded that because mining technology was
extremely basic, and with no pumps, explosives, or little knowledge of geology, the mineral resources of the African continent remained virtually untouched before European colonization.

Africa’s Pre-Colonial Economy and Slave Trading

For some writers in the dependency tradition, Africa’s role in the world economy had already been indelibly conditioned by contact with Europe prior to the formal colonial period. Most notorious of this phenomenon was the Atlantic slave trade. According to Curtin (1969), European traders had originally come to West Africa in the fifteenth and seventeenth centuries interested in goods other than slaves, particularly gold, ivory, and timber. Slave trading did not become important until the seventeenth century, with the rise of the West Indian sugar industry. According to Hopkins (1973), it is undoubtedly true that the Atlantic slave trade had a profound effect on Africa’s political economy from the seventeenth through the nineteenth centuries. He stated that the “remarkable expansion of the slave trade in the eighteenth century provides a horrific illustration of the rapid response of producers in an underdeveloped economy to price incentives” (p. 105).

Slave trading became a major source of wealth for African entrepreneurs who were able to supply the significant capital to mount sustained slave raiding. Slave trading also gave rise to coastal towns such as Lagos and Old Calabar in Nigeria, Port Novo in then Dahomey, and Accra and Takoradi in Ghana. These towns, according to Hopkins (1973), were not only the embarkation points for slaves, but also supplied the slaving ships with provisions for the Atlantic voyage and became distribution points for the goods received in exchange. As a result, a class of middlemen emerged in the coastal cities whose function it was to act as
intermediaries between European buyers and African suppliers. History also records the involvement in the slave trade of some powerful kingdoms in West Africa, such as in Cotonou in Dahomey; Badagry in Nigeria, and Asante in Ghana. Also, in exchange for slaves, African traders received a variety of imported goods—clothes, guns and ammunition, and utensils and tools.

Colonial Rule and Its Impact on Africa’s Political Economy

Any assessment of the colonial impact on Africa’s political economy must begin with the explicit recognition of the diversity of the colonial experience. Among the factors that shaped this diversity were the resources of the individual colonies, the significant numbers of Europeans who were present in Africa during this period, the nationality of the colonial power, and lastly, the philosophy and influence of individual colonial administrations.

In providing a succinct summary of the differential impact of colonial rule, Amin (1972) identifies three macro-regions in black Africa. He labels these “Africa of the labor reserves, in Eastern and Southern Africa,” “Africa of the colonial trade economy, in Western Africa,” and “Africa of the concession-owning companies, in Central Africa” (p. 233). In West Africa, there was no large-scale mineral wealth known during most of the colonial period; hence, the slave trade provided the sociopolitical foundation for the emergence of large-scale production and trade in tropical agricultural products.

Despite the diversity of colonial experiences, a number of common principles may be identified in the approach used by the European powers for their colonies’ economies. First, all of the colonial powers conceived of the relationship as one of *complimentarity*, in which Africa would have a subordinate role. James Mill (1947),
the nineteenth century political economist, defines a *colonial power* found it convenient to carry out some of its business* (p. 872). The objective of the imperial powers, in my opinion, was to construct an integrated economy in which the principal role of the colonies was to service metropolitan needs. This, of course, was the foundation of the external orientation that characterizes African economies today.

Complimentarity and integration were conceived of in terms of the metropole rather than of neighboring countries. As a consequence, infrastructure—railways, ports, and roads—was directed primarily toward the facilitation of overseas rather than internal or regional trade and communications. Complimentarity was also conceived of in terms of an exchange of African raw material and markets on the one hand, and European industrial goods on the other. The attitude of colonial powers toward African industrialization was that of indifference rather than pronounced hostility. For example, until the period after World War II, neither European colonial powers nor their trading companies perceived African markets as sufficiently significant to encourage import-substituting industrialization (ISI). Also, Africa’s “specialization” in the production of primary products did not always work against its immediate economic interests. A second key principle was the introduction of *indirect rule*. Many colonies under British rule, including Ghana, which was known as Cape Coast, was put under indirect rule, a process introduced in 1878 by the first Native Jurisdiction Ordinance. It lasted until 1944.

According to Schiffer (1970), indirect rule was a British policy characterized by indecision, which holds that local administration should be entrusted to local institutions having roots in age-old custom, subject to the supervision and overriding authority of the central government. But the history goes deeper than indirect rule.
Hindin (1950) stated that the policy was aimed at providing a statutory basis for the exercise of local government functions by chiefs, and at effecting measures of reform designed to modify the indigenous system to suit “modern conditions.”

The Coming of Europeans to Cape Coast

Cape Coast’s association with modern Europe dates back to the middle of the fifteenth century, when Portuguese sailors first landed on its shores, and afterwards in 1842, when they built a fortress at Elmina. The Portuguese monopoly was broken in the sixteenth century by the influx of the Dutch, French, Swedes, Danes, British, and Germans, all engaged in keen and acrimonious competition for the West Coast trade, mainly in slaves, gold, and spices. According to Ward (1958), following the abolition of slave trade early in the nineteenth century, the West African coast trade route became increasingly unprofitable, and by 1850, only the Danes, Dutch, and British remained active on Cape Coast. The Danish and Dutch possessions eventually passed on to Great Britain in 1850 and 1872, respectively, leaving the British in sole control of the coast by the late 1800s.

Kimble (1963) states that the Crown had assumed direct control over certain chiefs of the coastal areas by which the British obtained a protectorate over the country surrounding Cape Coast. At this time, however, says Ward, permanent occupation with direct political control was not envisaged, and for the next quarter of a century, little was done to extend British authority over the remainder of the country. The mandated territory, which lay to the east of the Colony and the Protectorate, was administered as an integral part of the Gold Coast. It became a United Nations (U.N.) Trusteeship in 1946, and following a U.N.-sponsored
plebiscite in 1956, it became part of the independent Gold Coast, which was renamed Ghana in 1957.

The Institutional Structure of Indirect Rule

The institutional structure of indirect rule, at the provincial and district levels, and the decline of the native authority system are germane to the thesis of this study, because at the time of its establishment in the Gold Coast, the merit of indirect rule was its presumed ability to permit a gradual evolutionary development. According to Akpan (1967), its proponents, unlike the French policy of assimilation, saw indirect rule as having real value in guiding traditional African institutions. It was believed that under this system of indirect rule the African would be able to progress toward civilization in a traditional milieu in which the loyalties inculcated in him from childhood would remain undisturbed. Mair (1969) argued that, unlike the policy adopted in other parts of Africa, where the interests of the white community were paramount, indirect rule was to provide in the Gold Coast a compromise in which neither culture was excluded, but a few would be created that would be a blend of African and European elements.

Two points are worth noting here on the evolution of the Gold Coast. First, as a separate territory, the Gold Coast was not acquired all at once as a ready-made territory, but was brought together in four stages of conquest. Second, the country had been in contact with European influence for over 400 years, and the southern half had organized political links with Britain for over a century, while the rest of the country enjoyed the same relationship for roughly half as much. The study observes that it is not unreasonable to think that the Ghanaian experience with the British and indirect rule was not only unparalleled in the whole of Africa, but also, in the words
of Lord Hailey (1941), "the history of European contacts with the Gold Coast is longer than with any other African territory south of the Sahara" (p. 1398).

Some scholars (Hailey 1941, 28; Ward 1958, 351–352; Hindin 1950, 95–107; Schiffer 1970) have argued that the system was not wholeheartedly applied in the Gold Coast. The system had two purposes. One was to maintain the traditional system and prevent it from being weakened by the disintegrating forces of Western life. The second was to educate the chiefs and their councils to carry out new functions. The emphasis on the chiefs could be attributed to the fact that the British found the institution of chieftaincy organized to carry the task of indirect rule. In my opinion, indirect rule was designed to show the greatest respect to the position and power of the chief as a representative of the stool (king). But this in itself made it impossible for the chiefs to exert that control which was demanded of native institutions to be effective agencies of local government. In practice, therefore, indirect rule in the Gold Coast had been described as a "mixture of direct and indirect rule with a steady bias toward the latter" (Hailey 1941, 28).

The structure of indirect rule comprised four institutions: the governor, colonial secretary, executive council, and legislative council. They constituted colonial rule at the national level (see Figure 1). Of these institutions, the governor was the key figure. Not only was he the sovereign's representative, but he also was the head of the executive arm of government and president of the legislature. For the greater part of the colonial period, the established institutions, like the executive and legislative councils, the civil service, the courts, the police, and the army, were all under the firm control of the governor. Supreme power—executive, legislative, and judicial—rested with the governor, just like the Viceroy in India or the Governor-General appointed for Nigeria. He was responsible or accountable not to the people
General appointed for Nigeria. He was responsible or accountable not to the people he ruled, but to the British Crown through the Secretary of State for the Colonies and the British Cabinet.

According to Crook (1973), these two agencies were responsible to the British Parliament and ultimately to the British electorate, both of which regarded themselves as trustees for the colonial subjects—a highly patronizing or paternal idea of trusteeship.
The second institutional structure of indirect rule was the executive council. It was primarily advisory in function, and the governor was required to consult it in carrying out his duties. The executive council had few internal and external checks. Wight (1946) observed that members of the executive council, in their capacities as department heads, presented matters for the deliberation of the legislative council, including financial estimates, ordinances affecting their departments, and the general laws of the Gold Coast Colony.

The third institutional structure was the legislative council. It was established in 1850 to give taxpayers representation in decision-making and to make laws for the colony.

The fourth institution was the colonial secretary, who was the governor’s executive officer. Under the colonial secretary was a secretariat, which was the heart of the administrative system that operated like a super-ministry. The secretariat was a technical department, the heads of which coordinated the functions of government.

The institutional structure at the provincial and district levels (see Figure 1) required that the governor be assisted by chief commissioners, provincial commissioners, district commissioners, and their assistants, who were all appointed by the British government. In order that the chiefs (who were the cornerstone of indirect rule) could carry out the decisions of the British government, conveyed through the district commissioners, the government established what was called “Native Authorities” throughout the Gold Coast, Asante, and the Northern Territories. As the council of chiefs in the Gold Coast, the native authorities were allowed to establish tribunals to try certain cases: disputes relating to the ownership, possession, or occupation of land within the areas of their jurisdiction; suits for divorce and other matrimonial cases between natives married under native law and
custom; suits to establish the paternity of children; and suits and matters relating to the succession to property of any deceased native.

According to Busia (1968), the decisions of the native courts were subject to reviews by government officials and the higher British established courts. Apter (1963) states that the native authorities were set up as units of local government and given power to pass by-laws relating to local matters and raise funds in order to improve development programs, like the construction of schools and health centers in their areas. He also observed that the district commissioners supervised the native authorities, which were responsible to the state councils—the highest authority of states consisting of paramount chiefs, divisional chiefs, and village headmen. At the apex of the native authority structure were the provincial councils. They were established to serve as a link with the chiefs between the local administration and the central government.

Relationship Between the Central Government and the Native Authority System

The history of the relationship between the colonial central government and the chiefs in the native authority system represented a deliberate cause of confusion by the British, because administrative difficulties in the Gold Coast centered around the position and powers of the chiefs. Two issues gave rise to these difficulties. First, there was the question of whether the chiefs and the native administrations derived their powers from their traditional position in the native society, and second, whether the government was the sole source of authority without whose recognition and approval the chiefs could legally function. It is the observation of the study that the political controversy existed in the Gold Coast at this time due to the unclear claim of the British that it had the right to govern through the native authorities by formal
appointments versus the inherent counterclaim of the chiefs who possessed the rights of jurisdiction by virtue of their traditional rights independent of government recognition.

When, later in the 1930s, it was desired to apply the “more modern view” of native administration as deriving their powers from the central government, it became exceedingly difficult to secure popular acquiescence. Thus, the chiefs in the Colony consistently resisted all attempts at reform legislation that attempted to make chieftaincy a legal status to be conferred only by the government.

The Decline of Indirect Rule and the Native Authority System

The decline of indirect rule and the native authority system happened progressively in the Gold Coast. Between 1944 and 1954 there was an attempt to turn the native authority system into a form of “modern” local government. The attempt was not finally abandoned until a few years after the role of chieftaincy in the central political institutions of the Colony was formally ended in 1954. Crook (1986) observed that the attempt to transform indirect rule and the native authority system into a “modern” form of local government began with the 1944 comprehensive reform of the native authorities and courts in the Colony, a reform which “in every sense embodied the high point of indirect rule” (p. 75). Historical accounts also showed that even the 1951 Constitution, under which Dr. Kwame Nkrumah and the CPP took power, provided that the traditional councils hold 37 of the 75 seats in the new Assembly.

The pertinent question at this juncture is: What contributed to the demise of indirect rule and the native authority system, especially as it shaped the political system, or lack thereof, in Ghana? There are several factors responsible for the
demise. First, at the time when indirect rule was being introduced formally into the administrative system of the Gold Coast, there was an increasing gap between ideology and reality, both in terms of political practice and socioeconomic relations (Crook 1986, 94). Also, not only had the chiefs resisted the administration’s best-intentioned endeavors to uphold customary law and practice and to regularize the basis of native authority finances, but they also failed to deliver the central core of the bargain, i.e., to represent legitimate rule, and to guarantee the acceptability of colonial rule.

Second, many officers during the period of colonial rule had “always known, or felt, the hollowness at the center of the policy.” According to Hindin (1950), one can always find quotations illustrating the despair and even the cynicism of district commissioners faced with the task of implementing indirect rule in the face of the daily realities.

Third, the native authority system did not respond to the needs of the society in which it was to operate. Pearce (1982) observed:

... regardless of the theoretical desirability of the maintenance and development of native institutions, as opposed to the substitution of European models, if the native institutions proved incapable of meeting the demands made on them by society, then they no longer played a useful role. (p. 70)

The difficulty in the Gold Coast was that the British, in their zeal to prevent the destruction of indigenous institutions, inadvertently prevented them from evolving at their normal pace and so aided in their eventual stultification. At the time of its establishment in the Gold Coast, the merit of indirect rule was its presumed ability to permit a gradual evolutionary development. Akpan (1967) argued that, unlike the French policy, indirect rule was of real value as far as traditional African institutions were concerned. Under this system, he continued, the African would be able to
progress in a traditional milieu in which the loyalties inculcated in him from childhood would remain undisturbed. I dare to ask what Akpan’s definition of “civilization in a traditional milieu” means in this context. Mair (1969) in concurring with Akpan, argued:

... unlike the policy adopted in other parts of Africa, where the interests of the white community were paramount, indirect rule was to provide in the Gold Coast a *compromise* in which neither culture was excluded but a few ones would be “created” which would be a blend of African and European elements. (p. 41)

The inclination of the British to see the preservation of native institutions as an end in itself was in part attributable to the fact that at no time was the real aim of indirect rule ever clearly defined. The assumption was generally accepted that the native institutions should be guided by the colonial administration to ensure their progress. But the big question is: What was the ultimate goal? The answer to this all-important question is advanced in this thesis as the reasons for the missteps of the former British colonies.

Ayee (1994) argued, “… it was the vital area of representation that brought about the failure of the native authority system, because African political expression was traditionally structured through the office of the chief” (p. 24). However, with the increase in education (albeit, Western), the representative was severely challenged. Busia (1968) also observed that the “existence of these groups of educated men has given an added virulence to the contest between youth and authority” (p. 133).

The analysis of the uneasy situation under indirect rule and the native authority system was that the political security of the illiterate chiefs and councilors, not only in Ghana but also in other colonies, was being undermined. Also, popular representation in the native authorities would not have meant a break with tradition
but the sacrifice of position and privileges by both the chief and his councilors. In the
words of Cowan (1958), “The whole concept of a Native Authority was antithetical
to the democratic ideology; rather it implied in many areas the continuation of an
enlightened and benevolent oligarchy” (p. 28).

Effects of Colonialism on Traditional African Societies

The study now looks into the effects of European colonialism and the erosion
of traditional societies in Africa, which, by all accounts, were very destabilizing. The
origin of modern colonialism began with the Treaty of Tordesillas in 1494, a
document in which Pope Alexander VI divided the world’s newly discovered
territories between Spain and Portugal. Easton (1964) observed that the division was
short-lived, as first the Dutch and then the British and the French became the world’s
dominant colonial powers. By the outbreak of World War I, most of what later
became the Third World (most of the countries of Africa) had fallen under one form
of colonial domination or the other. Jones (1986) states that most of the early
colonial ventures did little more than establish commercial centers or “factories” in
the coastal areas of the colonies, and their influence on traditional lifestyles was
minimal. Easton (1964) also observes that with the advent of the Industrial
Revolution in Europe, a new dynamic was undertaken by the Europeans to penetrate
the colonial territories. He summarizes the dynamic thus:

A few tropical products could be bought and sold profitably in Europe, as
been done for centuries. But to ensure a large and regular supply of such
products, railroads would have to be built and European ideas of organization
injected into primitive economies. The Europeans soon found it impossible to
do these things without taking over the country and administering it
themselves. Then, if the natives could be compelled by one device or another
to work for their new masters, a regular supply of raw for export could be
assured, and sufficient profits could be made to pay interest on the capital
invested in improved communications and the government. (p. 89)
According to Palmer (1997), colonial economic policies posed a relentless challenge to African societies. One of the first things that most colonial regimes did upon taking control of a territory was to replace the existing barter economies with a standardized money system. The payment of wages in cash rather than in kind provided workers with mobility, and those who were once dependent upon the family or landlord for sustenance could now migrate to the urban areas in search of work. Also, as monetary systems replaced the barter systems, it became possible for more innovative individuals to alter their status through the accumulation of wealth and property. A commercial (often foreign) elite thus emerged to challenge the status of the traditional, tribal, and religious elite. Consequently, Palmer argued that the shift to monetary economies accentuated the disparities between the “haves” and the “have-nots,” thus dividing economically homogenous societies into socioeconomic classes.

A second economic impact of colonialism, one that continues to wreak economic, political, and social havoc throughout the developing areas today, was the reshaping of colonial economies to meet the needs of the colonial power. Shockey (1964) observed that the economy of each colony was shaped to supply one or two primary products that provided maximum profit to the business interests of the ruling country. Egypt produced cotton, Ghana produced cocoa, Ceylon (Sri Lanka) produced tea, Brazil and Cuba produced sugar, Chad produced cypress, Indonesia produced rubber, and so on. Loehr and Powelson (1977) observed that as a result of the mercantile system alluded to above, the economies of the colonies were divided into three rather distinct segments: (1) a commercial urban sector augmented by light industry such as spinning or weaving, (2) a highly organized extractive industry
centering upon the colony's primary exports, and (3) an unproductive agrarian economy structured along traditional lines.

Mercantile economic policies also inhibited the ability of the colonies to develop a diversified industrial base of their own. Their role, obviously, was to support the economy of the mother country, not to be its competitor. Even after independence, most colonies retained a dependency relationship with the former ruling country by exporting their traditional primary products in return for industrial goods and technical assistance. Economic exploitation had other consequences, such as a secure environment and fixed commercial rules. It also required communication and transportation infrastructures and the development of a cadre of trained and educated natives to aid Europeans in the subjugation of the colonies.

Bohannon (1967) writes of the establishment of internal security forces to curtail raiding and much of the violence endemic in large parts of Africa. As a result, he reveals such a mechanism disrupted life patterns in areas in which tribal conflict had contributed to the strengthening of group solidarity and provided legitimate outlets for frustration and hostility.

On the question of education, information, and social change, colonialism did more harm than good. The French spoke of their "civilizing mission," and the economic logic of British imperialism left a lot to be desired in the promotion of Britain's "white man's burden." In the wake of colonialism, there was also the wave of missionaries (the so-called non-governmental organizations, NGOs) who flocked to the colonies to "save the souls of the heathens." The "civilizing" activities of the colonial powers often resulted in the establishment of rudimentary schools, the adoption of a European language as a second and, frequently, the official language, and eventually the introduction of the cinema, radio, newspapers, and other forms of
mass communication. The “civilizing” activities also included experimentation with consultative assemblies and other aspects of democracy. Exposure to education and information broke the intellectual isolation of traditional societies by introducing new ideas and proposing alternative lifestyles. Education also made it possible for native populations to interact with Europeans and to embrace Western values.

A principle of self-sufficiency was also used by the imperialist powers for most of the period of colonial rule. Colonies were required not only to pay for the cost of any development expenditure, but also for the insubstantial expense of colonial administration. According to Young (1988), the newly subordinated African societies were called upon “to finance their own conquest” (p. 45). Revenue was derived primarily from custom duties, despite the fact that head taxes played an important role in countries where foreign trade was of little significance and in times when trade was depressed.

Hopkins (1973) estimates that 50 percent of the revenue of the colonial authorities was expended on the payment of salaries and pensions of expatriate administrators. As much as a third of the remainder was devoted to servicing loans undertaken for capital expenditure—often on projects such as railways that were undertaken as much for their strategic as well as their economic value to some colonies. The study theorizes the fact that colonial administration failed woefully in encouraging self-development in the colonies is no wonder, based on the few resources that were available to government departments to execute important programs in education, health, and agriculture that would have promoted economic development. It was no surprise either that colonial miserliness ensured that public and private investment lagged behind such investment opportunities in Western countries, because, to the European imperialists, Africa was a source of raw materials
and human resources. As long as these two elements of imperial domination flowed unfettered, the question of “development” for African societies would remain unimportant.

Development as a Legitimizing Tool

“Development” as a means of legitimizing colonialism gradually gained acceptance during the 1920s. But it was in the period after World War II that a new emphasis on human equality and the obligations of the colonial powers was highlighted in the U.N. Charter. Thus, the major metropolitan powers had no choice but to abandon the principle of “self-sufficiency” in the colonies. Also, as a result of both the international pressure and demands for nationalist movements, expenditure on colonial development was significantly increased. For example, French public investment in its West African colonies in the 10-year period from 1947 to 1956 was more than double the total amount for the years between 1903 and 1946. Similarly, in the Gold Coast, state expenditure increased tenfold in the decade before independence. There was, however, a substantial difference between French West Africa and the relatively wealthy British colonies. More than 75 percent of investment in the British colonies was internally generated in the years 1946–1958, whereas in the French colonies in the same years, 70–75 percent was derived from France.

In all cases, however, public and private investment increased substantially. For example, multi-year plans were drawn up for the colonies’ development with considerable emphasis given to health and education and the improvement of internal transportation. The tariff policy, for the first time, was used as a means of encouraging local manufacturing and industry, as well as for raising revenue. Tariffs, together with the enlarged local market that resulted from improved earnings from
commodity exports, enticed investment in import-substituting industries from metropole-based industrialists.

To put the historical accounts into perspective, it is fair to say that African countries reached independence poorly equipped to tackle the enormous development tasks. The continent as a whole was less Advantageously placed than most other developing regions. It did not possess an industrial base or contain skilled personnel. Although living standards for many groups had risen during the colonial period, there was little margin above absolute poverty and starvation. The export trade of most countries was dependent on one or two agricultural crops or minerals, and it remained tightly connected to the metropole economy. Regrettably, the late colonial commitment to development, coupled with the more rapid than anticipated movement toward independence, provided African governments with a fragile foundation on which to build in the post-independence period. Nevertheless, colonization had introduced African economies to the capitalist world. Moreover, almost all Africans became part of the cash economy.

Did Colonialism Transform African Societies?

Colonialism did not dramatically transform African political economy or the economic lives of its inhabitants. At independence, African economies were characterized by what Lonsdale (1981) referred to as "syncretic articulation"—the uneven and combined development of both capitalist and pre-capitalist modes of production. The ready availability of land in most countries, he observed, afforded peasants the opportunity to retreat into subsistence agricultural production, which, in Goran Hyden's (1983) terminology, meant the peasantry remained "uncaptured." One can then reason that, rather than promoting the complete transformation of
pre-capitalist modes of production, colonial governments usually preferred to allow indigenous structures to coexist within the capitalist framework (Hyden 1983).

The effort to portray development as a continuum ranging from tradition to modernity is often referred to as modernization theory. Its goal is to emphasize the differences between the two poles of development in order to show Western efforts to modernize the states of the Third World, including African countries. Early works on the subject, such as Rostow’s (1962) *The Process of Economic Growth*, outline five steps that these countries had to follow if they were to gain parity with Western democracies: (1) move from the traditional stage, (2) fulfill the preconditions for take-off; (3) take off on a self-sustained growth, (4) make the drive toward maturity, and (5) attain the age of mass consumption. Albert Hirschman (1958), however, cautions that the development process was unlikely to be so neat. In my view, modernization theory, for what it is worth, continues to guide the development efforts of the world community, and notably, the IMF and the World Bank.

By exaggerating the differences between traditional and modern societies, moreover, we run the risk of making the development process more complex than it needs to be. Dia (1996) thought that rather than looking for the differences between traditional and modern societies, perhaps we should be looking for ways to bridge the gap between them. Simonia (1992) observed that it is entirely possible that a gap between tradition and modernity may be less profound than the Western theories suggest. Palmer (1997) theorized that modernization is also ethnocentric, assuming an inherent superiority of Western values and its modes of social organization. He, however, cautions that it could not be otherwise, for making the West the model of development automatically relegates all non-Western societies to secondary status.
Assumptions of Western superiority have made it easy for the West to view the states of the Third World as an abstraction beyond the pale of Western moral concerns. Edward Said (1979) refers to this process as “orientalism.” According to Said, the West deals with the Orient and other areas of the Third World by “making statements about it, authorizing views of it, describing it, settling it, ruling over it. In short, orientalism is a Western style for dominating, restructuring, and having authority over the orient” (p. 61).

Similar views are expressed by Mudimbe (1988), in his work *Invention of Africa*, as well as a variety of scholars examining the role of culture in development. They include Jonathan Crush (1994) and Arturo Escobar (1995). Treating African countries as theoretical abstractions rather than human flesh and blood enabled the imperialists in the West to sidestep the moral contradictions inherent in colonialism. In their minds’ eye, they were not oppressing people; rather, they were managing the colonies. After all, it was the West’s “manifest destiny” to rule the world. The same mentality and state of mind still operates in the West today; why else would their transnational corporations (TNCs) engage in all sorts of nefarious activities, all in the name of doing business with Third World countries, while they rob them?

In the next chapter, the study examines the forces of political, economic, and social change that propelled Ghana into the status of a nation-state. The study also explores the major issues of political, economic, and social change that confronted Dr. Kwame Nkrumah; the leader of the Convention People’s Party (CPP) during his tenure as the country’s democratically elected president.
CHAPTER III

GHANA AS A NATION-STATE AND
THE VISIONS OF DEVELOPMENT

The objective of this chapter is to explain the progression of Ghana, from a protectorate under indirect rule, to a British colony, and then to an independent nation through the efforts of the first politically elected CPP-led government of Dr. Kwame Nkrumah. As the first sub-Saharan African country to throw off the yoke of imperialism, Ghana struggled with the forces of nation building. Ghana’s route to independence through mass action on the streets, combined with peaceful constitutional negotiation behind the scene, had set the trend for other African nations. But by the early 1960s, the country’s uncontrolled population growth had outstripped its ability to feed itself. Economic dislocation made it difficult for the government to govern effectively. For the first time, Ghana became an importer of food. At the same time, cocoa prices on the world market collapsed and, with no reserves to tide it over, the country experienced a severe shortage of foreign exchange. Basic consumer products disappeared from the shops of Accra, the capital city, and inflation soared to 30 percent. An austerity budget was proposed in February 1966, but before it could be implemented, Nkrumah’s government was overthrown in a military coup.

In the early hours of 24 February 1966, while President Nkrumah was out of the country on a peace mission to Vietnam, the police and army seized control of
Accra and announced on the radio that the government had been overthrown. With their action, Ghana entered a new era of political instability.

My primary concern in this chapter is to analyze the political and economic processes that were employed by the various governments to bring Ghana to the threshold of a nation-state. I also intend to postulate that the dual transition program of the Provisional National Defense Council (PNDC), proposed and implemented during the 1980s and early 1990s, engendered a struggle (albeit, with success) between external and domestic forces, which eventually brought the country out of the abyss. Ghana moved from being a country without a future, to one that could boast about economic growth and political stability. My concern with policy implementation measures the state’s ability to carry out its policy objectives, given the constraints arising from domestic and international politics.

When Ghana became independent in 1957, the British left the country without an administrative structure with which to run the country, and despite the much heralded native authority system, the running of the government was left in the hands of indigenous politicians who, though educated, were unprepared for such awesome tasks. Nevertheless, Nkrumah’s CPP government was determined to break free of the neo-colonial stranglehold, and then proceeded to embark upon an ambitious program of rapid industrialization combined with agricultural expansion.

The aim was twofold. First, it was to reduce the country’s need for expensive imports by manufacturing for Ghana’s own consumer needs, a policy known as import-substitution industrialization (ISI). Second, the program was not only supposed to expand the range of raw material exports, it was also meant to process raw materials at home and thus earn more foreign exchange. The emphasis was on rapid growth in order to sustain the government’s ambitious program of social,
education, and health development expenditures. So why didn’t the program succeed?

Pursuit of Inappropriate Policies After Independence

At independence, one of Ghana’s principal goals was the achievement of sustained economic development. Yet, the set of its policy choices failed to generate sustained economic development and was a contrast between declared intention and actual accomplishments. Bates (1981) inquired, “Why should reasonable men adopt public policies that have harmful consequences for the societies they govern?” (p. 3). In the Ghanaian context, there exist three responses to this question, namely: (1) the existence of an urban bias, (2) a dominant development ethos, and (3) transaction and agency costs. These approaches are examined individually.

Urban Bias

The dominant political coalition which decisively influenced Ghana’s post-independence economic policies was composed of a number of urban-based social groups. According to Lipton (1976), the politically active membership of the CPP, especially during its early years, consisted overwhelmingly of highly volatile urban elements, most notably returned servicemen, unemployed school leavers, and low-paid workers. This party’s membership was also heavily comprised of a series of urban white-collar groups that had been united in their struggle against colonial rule, especially lower-level civil servants such as teachers and clerical workers, as well as urbanized professionals such as journalists and lawyers.

The issues that galvanized the movement to political action were also of great concern in the urban context. These included unemployment, housing scarcity, the
rising cost of consumer goods, and the lack of opportunity for upward career mobility in the civil service. The urban bias approach suggests that the post-independence policy framework of the CPP government pursued policies that would offer the greatest prospect of maintaining the loyalty of these volatile supporters. As a result, a variety of policies, aside from the ISI, was employed to shift society’s resources toward the groups and away from rural populations in a weaker bargaining position, such as (a) overvaluation of the currency, (b) suppression of producer prices of cocoa, (c) labor market policies, and (d) financial sector policies.

Overvaluation of the currency is a “tax” on the export sector, much of which is rural. Overvaluation lowers the real price (of local currency) received by export producers. Overvaluation was also used in the early stages to provide cheap imported inputs to urban industries. It can then be reasoned that the real purpose of protected industries was not only to generate the employment opportunities demanded by the growing numbers of school leavers and urban immigrants, but also to provide high-ranking managerial and administrative posts demanded by the large numbers of educated Ghanaians who appeared otherwise to have limited career opportunity.

Suppression of producer cocoa prices, carried out through the Cocoa Marketing Board (CMB), involved the use of economic resources to gain or maintain the loyalty of important political supporters. It absorbed a large portion of the value of the cocoa crop merely to sustain highly inflated levels of bureaucratic employment and remuneration scales that were utterly disproportionate to the level of development of the country. The CMB was not used as a means for price stabilization, but an instrument for patronage, nepotism, and corruption for the country’s leading politicians.
Labor market policies were also used by the politicians by providing a high degree of protection for the import-substituting sector, which then provided workers in those industries not only with a high level of wages (relative to productivity) but with a range of additional benefits including job security, generous termination allowances, and retirement benefits. According to Roemer (1971), the costs of Ghana’s generous wage and benefit system were borne partially by both urban and rural consumers, who were forced to pay high prices (relative to international levels) for poor quality goods. He observed that the burden was principally felt by cocoa farmers, whose export earnings provided the major financial basis for the economy. He concludes that “it is not surprising that workers in protected industries have consistently been among the strongest opponents of economic reform” (p. 104).

Financial sector policies, particularly in the area of low real interest rates, have discriminated in favor of the urban sector, which then creates low or negative rates that can then be transferred to the modern, largely urban sector. Roemer (1971) stipulates that the wage-rental ratio rose by about 25 percent from 1960 to 1966 (Nkrumah’s last year). The 1967 devaluation restored the ratio to about the level of 1960.

Dominant Development Ethos

The second explanation for Ghana’s post-independence economic policies was the dominant developmental ethos of the early 1960s. Regrettably, much of the economic theory of this era was characterized by a profound pessimism about the extent to which international trade might stimulate growth in the developing regions of the world, especially the sub-Saharan region. Economists as well as their colleagues in political science, including Gunnar Myrdal, Raoul Prebisch, Ragnar
Nurske, and Hans Singer, shared a profound conviction that international trade would not contribute to the development of poorer countries. For example, Singer and Ansari (1977) summarized this position in the following terms:

... there are systematic forces at work in world markets which tend to reduce the gains of the poor countries in international trade; consequently, trade may actually widen the gap between the rich and poor countries. Furthermore, the adverse movement in the terms of trade of the poor countries transfers the benefits of technological innovations from the poor to the rich. (p. 65)

During the 1960s, a great deal of literature on the terms of trade between poor and developed countries helped to shape and stress the adverse movement in the terms of trade of primary commodity exporters such as Ghana. Also, it tended to reinforce, in the view of some, the idea that poorer countries would not maximize their prospects of economic growth by emphasizing the production of tradable commodities.

The question of international trade and the political thought of African leaders, not surprisingly at this time, evoked pessimism about the connection between trade and economic development for poor countries and was widely shared across the intellectual spectrum, which helped contribute to its influence among the political leaders of developing nations. This set of views, for example, was held by a number of economists who were particularly influential in Ghana. Arthur W. Lewis (1969), who was a personal economic advisor to Nkrumah on several occasions in the 1950s, observed that the principal problem of development has to do with the low marginal productivity of labor in agriculture. According to Lewis, supplies of labor were basically unlimited; hence, the central challenge was to find means to move labor from the low marginal productivity agricultural sector into a high marginal productivity sector, namely, industry. To accomplish this, he advocated a government-led developmental strategy of industrialization.
Barbara Ward (1961), who opined that African countries, Ghana included, lacked an entrepreneurial class of sufficient size and capital resources to promote a Western-style industrial revolution, also echoed Lewis’ emphasis on the need for a public policy of industrialization. Ward, as Lady Jackson and the wife of Sir Robert Jackson, who had been commissioner of development in Ghana, reflected the intellectual climate of the day when she noted:

Throughout most of Africa today, you can count the number of effective African businessmen on two hands. . . . Clearly an almost non-existent entrepreneurial class can hardly launch the revolution of sustained growth. The men are quite simply not there to do it. This is the primary reason why we find a much greater emphasis upon government activity in raising the necessary savings today. (p. 57)

The study believes that the dominant intellectual atmosphere of the 1960s not only contributed to the ideas of trade pessimism and a conviction about the weakness of the entrepreneurial class, but it also contributed, to a large extent, to the policy framework adopted by the Ghanaian government. The CPP’s commitment to the idea of the state as a necessary generator of industrial growth, and hence of expanded employment opportunity, arose directly from the view that Africa lacked an entrepreneurial class capable of performing the function. Consequently, the withdrawal from world trade was implicit in import-substitution, which grew directly out of the trade pessimism of the era.

Killick (1978) observed that not only did these negative ideas lead to Ghana’s choice of economic policy, but also explains the dominant ideas in the development economics of the 1960s and the events that occurred in Ghana. He summarized his views thus:

Economic strategy in Ghana was inspired by a vision of economic modernization similar to, and influenced by, that of many professional economists who were concerning themselves with the problems of underdeveloped countries: a “big push” primarily involving a major
investment effort, a strategy . . . emphasizing import-substitution, and a less open economy, to be achieved largely through the instrumentalities of the state. (p. 71)

The prominence of industrialization via import-substitution and the emergence of state enterprises, not only in the development theories of the 1960s, but also in the economic practices of a significant number of non-Western countries seeking rapid economic growth, in my view, places Africa's commitment in suspense. It did not grow out of urban bias but rather of an intellectual acceptance on a widely discussed and, at the time, widely respected and practiced set of economic ideas.

Transaction and Agency Costs

The choice of taxes and transfers on the part of the government may be viewed at times as a rational response to transaction and agency costs facing it. Lacking the administrative capacity to impose and collect complex forms of revenue such as taxes on income, property, sales, or valued added, or to distribute transfers such as the various forms of in-kind payments, government can turn to other instruments that may make the collection of revenues and distribution of transfers less costly and more certain.

Levi (1988) defines transaction costs in the following terms:

Transaction costs are the positive costs of bargaining a policy and of implementing a policy once it has been bargained. The most important transaction costs are those of negotiating agreements, measuring revenue sources, monitoring compliance, using agents and other middlemen, punishing the non-compliant, and creating quasi-voluntary compliance. A policy is not viable if the transaction costs are too high. (p. 23)

Levi observes that a specific instance of transaction costs is "agency costs," i.e., the personnel or operating costs of a government's tax-collecting mechanisms. Agents, says Levi, can shirk and cheat, particularly at the point where they extract revenue
and at the point where they can turn revenue over to rulers. The transaction and agency costs of collecting taxes and distributing transfers in some peasant societies, therefore, can be inordinately high, unless a bureaucracy, which is maintained on a year-round basis, can monitor individual peasant incomes, which are very low relative to the salary levels and other costs of government agents.

The factor of transaction and agency costs does provide an explanation of why many African governments, including that of Ghana, chose at an early stage to use the particular mechanisms for extracting resources from peasant producers and transferring those resources to other sectors of the economy. There are two elements of this policy mix. First is the suppression of the real price of foreign exchange, which reduces the price that export producers receive for their products and transfers the surplus to the recipients of the foreign exchange proceeds. Second is the suppression of producer prices through the use of state monopoly systems of crop procurement, processing, and distribution. According to Stryker et al. (1990), the ratio of transaction costs to revenue collected is low, and the proportion of resources collected that actually makes its way into the government treasury and other intended destinations is relatively high. He observes that some of the methods of extracting revenue do not have to pass through the treasury, which may be viewed by some in government as a distinct advantage, because a tax that can be levied and directly turned over to the intended recipient does not have to be accounted for on either the receipt or the expenditure side and does not have to be defended within the government or in public.
Political Ideology of the Nkrumah Regime

The political ideology that Nkrumah chose to achieve his objectives of a self-sustained state was a centralized, corporate socialism, much like the model used in Eastern Europe in those days. Therefore, the CPP government intervened in every sector of the economy, setting up state-owned corporations to run gold mining, plantation agriculture, processing industries, transport, and marketing. In addition, huge investments were poured into the country’s transport infrastructure and port facilities. New rail links were opened and trunk roads connected them to remote villages. A national airline was established, Ghana Airways, as well as a national shipping line, the Black Star Line. The largest investments were the Akosombo Dam hydro-electric project, one of the largest in the world, and the new port at Tema, which was to serve the nearby smelting plant.

Nkrumah’s government achieved great infrastructural development and made Ghana the envy of much of independent Africa. But at what cost? Ultimately, the social, political, and economic costs were such that they undermined much of what had originally been achieved. Although the CPP’s investment program benefited the political and national interests, the issue of cocoa prices, as mentioned above, became a handy tool for whipping up political support for opponents of the CPP. It was thus no coincidence that so much of the opposition to Nkrumahist ideology was drawn from the cocoa farming regions of the country. Few were surprised when Nkrumah was overthrown, because his methods and politics had provoked opposition from his earliest time in politics.

Convinced that he was right in his social and economic policies, and with opposition building outside Parliament, Nkrumah was driven to more dictatorial
practices. Soon after independence in 1957, he got Parliament to outlaw all political parties based upon tribal or regional support. Nkrumah and his supporters were mainly from the Akan tribe in the Ashanti and Eastern regions. The opposition parties, which were forced to disband as a result of this move, were the National Liberation Movement (NLM) from the Western and Brong-Ahafo regions, and the Northern People’s Party (NPP), mainly composed of people from the Upper West, Upper East, and Northern regions of Ghana. The disbanded parties merged to form the United Party (UP) under the leadership of Dr. Kofi Busia, but they were never really “united,” given their ineffectiveness as a parliamentary opposition. Even within the CPP itself, Nkrumah grew increasingly intolerant of the opposition. For example, following his election as President of the First Republic in 1960, he took over the position of General Secretary of the CPP. He also made himself the party’s Life Chairman. But nothing could save him from the wrath of the nation. When the end came, Nkrumah’s government had become a regime of self-serving bureaucrats and corrupt party hacks, and its overthrow was greeted with widespread relief. (See Appendix A.)

The First Military Coup in Ghana

The police and senior army officers who staged the coup of 1966 had their own specific reasons for acting as they did, not the least of these being a recent cutback in their budget and a firm belief that Nkrumah was planning to commit the Ghanaian army to the liberation of Zimbabwe. As it so often happens with military coups d’état, the coup-makers protested their innocence and donned the garb of “liberators.” In this instance, they formed a “National Liberation Council” (NLC) of senior army and police officers, chaired by the recently retired Lt. Gen. J. A. Ankrah.
The NLC sought legitimacy by publicizing the depth of corruption in the previous regime. The British-trained officers of the NLC laid out their right-wing credentials, making it clear that they were getting rid of socialism and returning Ghana to the Western fold. For example, within weeks of the coup they had canceled or suspended bilateral agreements with socialist countries, expelled all their technical personnel, and closed down numerous projects on the grounds they were financed from the East. But in doing so, the NLC abandoned any serious attempt to break the country's neo-colonial dependence on the West.

The NLC turned with enthusiasm to the selling off of state corporations, and many potentially profitable enterprises passed into foreign control. According to Owusu (1989), the financial rewards for turning away from socialism were soft loans from Britain, a temporary moratorium on loans from the United States, and financial support for the IMF, following a 30 percent devaluation of the currency in July 1967. The benefits of devaluation, says Owusu, were, however, lost to most Ghanaians. With cutbacks in investment and a decrease in the agricultural budget, production for export declined, and cocoa production (the mainstay of the economy) fell from 557,000 tons in 1965 to 334,000 tons in 1969. This was accompanied by cuts in public services, especially health and education, and rising unemployment as thousands of workers were laid off in the construction industry. By contrast, Owusu concludes, the defense budget was doubled and military salaries increased by more than 200 percent.

The NLC period, 1966–1969, can be summed up, according to Pinkney (1972), as little more than a sharing out of the spoils of power. Inflation was cut back slightly, he says, through a harsh wage freeze, but the budget deficit continued, and
with the deteriorating economic situation, the military was not anxious to stay any longer than necessary. So an exit strategy was devised.

Soon after coming to power, the NLC set up a Political Committee to supervise a return to civilian rule. The Committee was chaired by Dr. Kofi Busia, who had recently returned from exile, and included former failed politicians of the National Liberation Movement (NLM) and the United Party (UP). The Political Committee performed their task by supervising the formation of the Constituent Assembly, which drafted a constitution.

Second Republic and the Busia Administration

When the ban on politics was lifted in 1969, Busia formed the Progressive Party (PP) from the remnants of the former United Party. With the direct backing of the military and the banning of the CPP politicians who were prevented from standing for elections for twelve years, Busia had a clear advantage over any potential opponents. In the general election of September 1969, Busia’s Progressive Party won 105 out of the 140 seats in the Assembly. There is little doubt, however, that in this election the specter of “tribalism” raised its ugly head in Ghanaian politics. Therefore, despite the democratic rhetoric of the PP and the high hopes of the electorate, the government of the Second Republic was a great disappointment.

Busia proved to be no respecter of democracy. He became just as dictatorial as Nkrumah had ever been. He interfered with the independence of the judiciary; he sacked judges and fired newspaper editors when they disagreed with him. Rumor was also rife at this time that his government siphoned off gold to neighboring Cote d’Ivoire to buy luxurious cars for the party elite. In his first year in office, Busia alienated many intellectuals when he sacked over 500 senior civil servants simply on
the grounds the Constitution gave him the right to do so. By the middle of 1971, the
Busia government began to face mounting public criticism on a number of fronts.
According to Le Vine (1987), six years of the anti-socialist “free-market” had
produced few tangible gains for the country. There was little long-term investment in
agriculture. The proceeds of a boom cocoa harvest in 1970 were wasted on imports
of luxury consumer goods to satisfy the urban bourgeoisie. The country suffered a
heavy balance of payments deficit, shortages of basic commodities in the shops, rising
unemployment, and huge foreign debts.

Busia, says Le Vine, also provoked further opposition by his attitude towards
trade unions and students. He crippled the Trade Union Congress (TUC) by banning
the compulsory levying of dues on all union members, and he had a stormy
relationship with the leadership of the National Union Ghanaian Students (NUGS).
The intense antipathy, Le Vine concludes, between Busia and the NUGS leadership
prompted support for the coup d’état of 1972, in addition to Busia cutting the
military budget and replacing certain military personnel with Progressive Party
sympathizers.

Finally, in December 1971, with the economy in serious trouble, the
government took the politically suicidal decision of devaluing the cedi by a drastic
48.6 percent and imposing a 5 percent “national development” levy. The immediate
result was an increase in the price of imports and further inflation.

The Coming of Acheampong

General Acheampong’s intervention in 1972, as well as many unhappy
soldiers, confirmed the military as part of the Ghanaian political process.
Acheampong and his co-conspirators paraded themselves as erstwhile Nkrumahists,
who sought to reverse the "neo-colonialist" sell-out of the Busia administration and return Ghana to the better days of the Nkrumah administration. Acheampong ordered the return of Nkrumah's body for burial in Ghana and awarded him a full state funeral befitting a former head of state. Acheampong's National Redemption Council (NRC) also won popular support by reversing the fiscal policies of the previous regime, e.g., he canceled the 5 percent development levy and repudiated many of the country's foreign debts.

Political wisdom showed that these actions may have won Acheampong popular support in the short term, but it was guaranteed to exacerbate the economic situation in the long run. Freed temporarily from the stranglehold of foreign debt, Acheampong declared his aim to be "economic self-reliance," stressing that this would be achieved only through austerity and hard work. The main focus of Acheampong's early years was "Operation Feed Yourself" (OFY). This program involved a large drive to achieve self-sufficiency in the country's two principal food crops, rice and maize. OFY was widely welcomed in both town and countryside, and it ushered in a brief boom in food production. Although admirable and imaginative, the success of OFY was short-lived, however, as enthusiasm alone could not grow food. By 1975, the Ghanaian economy was moving into deep recession and Acheampong clearly did not know what to do about it. On top of the oil crisis of 1973 came drought and falling cocoa production. Apparently, given all the political wrangling, no attention had been paid to investment in the country's infrastructure. As a result, roads began to fall apart, and industrial and farm machinery ceased to function for lack of spare parts.

Faced with an emerging economic crisis in 1975, the service commanders, who had been excluded from the original coup, fearing that the military as a whole
would be discredited, seized the initiative. They forced a change in the structure of the NRC, which almost ousted Acheampong. The result was the “Supreme Military Council” (SMC), which replaced the NRC and contained commanders of all the military services as well as the Inspector General of Police. Acheampong retained sole responsibility for finance and defense, but he clearly lacked the capacity to solve the country’s problems. Policy-making entered the realm of a farce when the head of state launched an essay competition, asking for suggestions on how to improve the economy. He topped this in June 1977 by holding a national week of prayer.

Acheampong had the treasury print more money, which only fueled the inflation, exceeding 100 percent by 1976. Combined with the declining national production, and an inflated cedi, Ghana could not manage its foreign exchange. World prices had soared to record levels in 1977, but the gains were siphoned off by the government and its supporters. In the current circumstances, cocoa farmers found it simply not worth their while producing for the export market. Many farmers abandoned export crops in favor of growing food for themselves, while others smuggled cocoa across the border to Cote d’Ivoire, where more realistic prices could be obtained.

Meanwhile, with the falling industrial and commercial food production, demand for imports rose and Acheampong’s government found itself turning once again to foreign money-lenders for support. By 1977, it had run up debts as large as its predecessors. The incompetence and mismanagement of the early years were coming back to haunt the Acheampong government, and it became obvious that he had lost control of the economy, a key ingredient for his political survival. According to Shillington (1992), those military officers in positions of power began to help themselves to the country’s dwindling coffers. Senior officers, now in charge of
ministries and corporations used their positions to look after their own interests, and the scope of their nefarious activities was almost infinite.

The Acheampong government, widely recognized as disastrous for the country, is most remembered for the introduction of corruption on a massive scale. He also is remembered for the “Union Government” (UNIGOV) experiment, a proposal for a non-party government with direct military and police participation. The former hastened Ghana’s economic decline, while the latter provided the opportunity for the downfall of the SMC regime. The Acheampong years witnessed a great Ghanaian Diaspora as the country’s academics and professionals sought employment in other African countries or in Europe and North America. Realizing that he needed to regain some kind of legitimacy for his ailing government, but unwilling to release the reins of power, Acheampong devised a new constitution that would guarantee a permanent place for himself and the military.

In January 1977, he set up an ad hoc committee to sound out opinion and draw up specific proposals for the UNIGOV concept. But the very idea of seeking opinion provided his opponents with a cause to rally the discontented NUGS and the larger student body, who were the most vocal critics of the scheme. Aside from the demonstrations demanding Acheampong’s immediate resignation, the Association of Recognized Professional Bodies (ARPB), representing lawyers, doctors, university teachers, and others, denounced the SMC and called for its resignation.

Acheampong rejected these demands and thereby provoked a general strike. By the middle of July 1977, with the country grinding to a halt and revolution in the air, Acheampong was forced to withdraw his plan but insisted he would remain at the head of government until 1 July 1979. The UNIGOV plan, he said, would be put to a referendum of the people. The SMC made it clear its senior officers were determined
to play a role in any future government. They also saw the referendum as a vote of confidence on Acheampong's record. When it became clear the referendum would reject the UNIGOV scheme, the SMC issued a directive ordering the polling boxes to be collected and taken to regional centers for counting. The Electoral Commissioner, Justice A. K. Abban, challenged the order and publicly denounced it as illegal. The SMC ordered him sacked and a warrant was issued for his arrest. Before going into hiding, however, he published the results that showed a clear defeat for the UNIGOV plan. The next day, the state-owned press countered this action by declaring UNIGOV had been approved by 54 percent to 46 percent of the vote. No one, however, seriously believed the government claim, especially since the announcement was accompanied by widespread arrests and the banning of all opposition groups.

General Akuffo and the SMC II Regime

According to Ayee (1994), with the people reacting to the political turmoil by refusing to go to work and thus galvanizing the Ghanaian people, with a semblance of rebellion by the people, Acheampong was forced to resign and Lt. Gen. Fred Akuffo took over the chairmanship of the SMC and announced the formation of another government. Akuffo, however, made it clear that the new SMC—popularly known as SMC II—was simply a reformed version of the same military government. In December 1978, Akuffo announced the setting up of a Constituent Assembly to draw up a constitution. The UNIGOV idea was shelved, and the ban on politics was lifted.

Akuffo's initial action was to arrest the economic decline, and the cedi was put on a floating scale. The devaluation, however, attracted the wrath of the radical left, especially the student leaders, who regarded it as a sell-out to the forces of
imperialism. Devaluation was part of the socialist rhetoric of the Ghanaian left, but it was a stance of dubious value and would haunt the Ghanaian body politic in the 1980s. The other major economic decision taken by Akuffo’s government was the changing of the country’s currency. All old currency notes, popularly known as “Acheampong’s cedis” were withdrawn, and new cedis were issued in their place. Ayee (1994) continued by observing that opposition to the reform was substantial, and work stoppages again paralyzed the country.

The devaluation fell hardest on the poor. Suffering most were the rural poor, who could not get to banks in time and lost much of their savings to unscrupulous exchange dealers who bought and sold currency notes uncontrollably. Of course, businessmen, especially those in the Lebanese community, and some bankers had their accounts exchanged at par and consequently had little to lose and much to gain. This fact aroused considerable antipathy towards the so-called “privileged elite.” Also, to the long-oppressed and exploited majority, the whole exercise seemed like an attempt by a corrupt and discredited government and its business friends to go on one final escapade of self-enrichment at the expense of the masses. It is an attitude to be borne in mind when considering the mass support for the June 4th Revolution when it came.

In straight economic terms, the immediate effect of the cedi exchange was to reduce drastically the amount in circulation and to stem the tide of inflation. Unfortunately, the consequence of fifteen years of economic neglect had taken its toll and the Akuffo government did not have the time, the popular mandate, or the inclination to steer the economy in a new direction. Theirs was simply a holding operation. Conversely, the newly emergent political parties were not likely to fare any better.
Party Politics and Preamble to the Third Republic

Immediately after the ban on politics had been lifted in January 1979, the old party machinery swung into action. There were new names to the parties, but much of the old division between CPP and UP/PP tendencies remained. For example, the Nkrumahist inheritance was taken up by the People's National Party (PNP), formed by many of the "old guard" CPP members who had fallen out with Nkrumah in the 1960s. The "purer" socialist inheritance was taken up by Johnny Hansen, who formed the People's Revolutionary Party (PRP), which later merged with the PNP. Opposing them was the Popular Front Party (PFP), headed by Victor Owusu, representing the Busia ideology of the former Progressive Party. In between the two traditional divisions lay a multitude of parties and personal interest groups. The parties began campaigning even before the Constitution was devised. Relatively uninformed about economic policy, the principal parties drew much of their rhetoric and their rationale from the party politics of the past. All promised great tomorrows with very little substance or analysis of the country's real economic crisis.

The Constituent Assembly sat from January to March 1979 and came up with a draft constitution that favored an American-style executive presidency and a 140-member National Assembly. The draft was sent to General Akuffo for SMC approval. By early May, the Constituent Assembly was still waiting for SMC's reaction, and it remained unclear who was to promulgate the Constitution: the Constituent Assembly or the head of state. There were rumors in some circles that perhaps the SMC was deliberately delaying the promulgation or was having second thoughts about the handing over power. On the surface, however, there was no obvious foundation for the suspicion. During May, the tempo of campaigning
intensified and, on the simple assumption that all was well, the parties moved ahead with the general and presidential elections, scheduled for 18 June 1979.

As a preface to the visions of development in Ghana, political instability has had a long history in Ghana and, while enthusiastic party political leaders lived under the illusion of pre-election promises, some more thoughtful or cynical Ghanaians had their doubts. Added to this uncertainty, despite the pre-election fever, was that there was a sense of unreality in the air, and the people’s reticence was validated by the events that followed which shocked the Ghanaian body politic in the twenty-two years of its independent history.

First Coming of Jerry J. Rawlings

As a basis for the events leading to the June 4th Revolution, Rawlings was said to have been most outspoken against the SMC regime of Acheampong at a meeting in 1978, soon after the UNIGOV referendum. According to published reports in the Ghanaian media, his initial expectation of the Akuffo palace coup of July 1978 was disillusioned, also based on the events of the previous year, which he regarded as a waste of time. He was convinced that nothing of significance had been changed, and the frustration and resentment of the lower ranks toward the senior officers in the military continued to simmer below the surface. He felt somebody had to make a move to change the status quo and put the country “back on the right track.”

According to Hansen and Collins (1980), the move came in the early hours of 15 May 1979, and the scene was the Reece Army Headquarters in Accra, where Rawlings and a 50-member team carried out a pre-dawn military coup. The plot was aborted when an officer set off the alarm and the Reece Commanding Officer, Major
Suleiman, arrived on the scene. He quickly seized the situation and Rawlings and his men were captured. After the arrest, the Akuffo government decided to put Rawlings and his men on public trial, despite the mutinous feelings in the ranks, in a Military Tribunal in Burma Camp, the official residence of the head of state, General Fred Akuffo.

Yankah (1987), in chronicling the highly charged events, said that the trial of Rawlings and his co-defendants for Ghanaians generated an agitation that had the undertones of a demand for change. He stated that in Rawlings’ testimony, his principal motivation for the coup attempt had been to restore the image of the Armed Forces by getting the SMC regime to use its final weeks in power to clear up the “widespread corruption in high places” and to curb the “nefarious activities of the Lebanese and Syrian business community” (Yankah 1987, 31) who controlled most of the country’s wholesale and import trade and had been “growing fat” at the expense of starving Ghanaians. The author observed that the rank and file in the court started to warm to Rawlings’ rhetoric, as the events of 4 June 1979 would prove that sentiment and the move taken by the junior officers.

The June 4th Revolution and the AFRC Regime

In the early hours of 4 June 1979, lower rank officers stormed Burma Camp, freed Rawlings from prison, and immediately took him to the nearby Broadcasting House where he made his first public broadcast to the nation. Rawlings, in a state of excitement, shouted into the microphone:

This is Fl. Lt. Rawlings. The ranks have just got me out of my prison cell. In other words, the ranks have just taken over the destiny of this country. Fellow officers, if we are to avoid any bloodshed, I plead with you not to attempt to stand in the way because they are full of malice, hatred—hatred we have forced into them through all these years of suppression. They are ready to get
it out—the venom we have created. So, for heaven’s sake do not stand in their way. They are fools. If you have any reason to fear them, you may run. If you have no reason to feel guilty, do not move . . . We can’t restrain them. Armed Forces will be handing over to the civilians in due time. Elections will take place. But before elections go on, justice which has been denied to the Ghanaian worker will have to take place. Some of us have suffered too long. You are either a part of the problem or a part of the solution. There is no middle way. If you think you have worked for the welfare of your subordinates, you have nothing to fear . . . We know those among you who are honest, some even within the SMC . . . So for heaven’s sake, do not run away. Be the men you are and come to work. Come to Burma Camp. Nicholson Stadium will be our meeting ground where our elections will take place. Those who are looking out for our welfare will be elected . . . elected leaders will now emerge, not those imposed on us. (Ministry of Information, 1990)

Chazan (1983) observes that not only was Rawlings uncertain about his position in the emerging revolution, but he was certainly not “the leader of the coup.” His rescue had been a galvanizing factor that prompted the uprising. What had now developed was a spontaneous revolution of the lower ranks against the established authority, and Rawlings, to some extent, was part of the authority structure. Nevertheless, the political situation remained fluid at best, and in order to bring about normalcy, a 15-member Armed Forces Revolutionary Council (AFRC) was established. Rawlings was made the Chairman and the rest of the AFRC was a careful balance of junior- and middle-rank officers of the military.

While Rawlings and his companions were sorting out the details of the new governing body, armed soldiers were looting shops and selected business premises. Any looting that went on during this period was regarded by the soldiers involved as justifiable “redistribution of wealth,” and especially singled out for individual assault and harassment were Lebanese businessmen, whom the people resented for their exploitative tendencies. Meanwhile, other soldiers were busy arresting all the senior officers they could lay their hands on, often subjecting them to systematic humiliation starting with the shaving of their heads.
Rawlings recognized the explosive situation, and he had to appeal to the military rank and file to stop the indiscriminate molestation of their officers by assuring them that there were many clean, disciplined, dedicated, radical, and action-oriented officers in the armed forces and that all of them would be needed in the weeks ahead to assist in saving and restoring the integrity of the country.

After discussions with some trusted military hierarchy, Chairman Rawlings was advised that civilians should be more fully involved in the top levels of government and that senior officers’ corps should divest itself of the sort of control they exercised during the Acheampong regime. The economist, Dr. J. L. S. Abbey, the commissioner of Finance in the Akuffo government, recommended that, for the sake of administrative stability, the civilians of the previous government should be left in place at the head of the various ministries. Rawlings accepted this advice and he appointed Major-General Joshua Hamidu, former Chief of the Defense Staff in the Akuffo regime, as Liaison Officer between the AFRC and the ministries.

One of the decisions taken by the AFRC was that parliamentary and presidential elections would proceed as planned on 18 June, but that the handing over of power would be postponed for three months to 1 October. The reason was to allow the AFRC to “complete its tasks.” This left Rawlings free to concentrate his energy on what he saw as the main focus of the June 4th Revolution: the clearing up of corruption in all walks of life and, in particular, the kalabule system—a practice of price fixing and hoarding. This system had for many years directly affected the cost of living and can be blamed for the spiraling inflationary effect on the Ghanaian economy. To implement a frontal attack upon the kalabule traders, the government announced that all goods were to be sold at controlled prices. This not only brought law and order to the marketplace, but culminated in the clearing of Makola market in
Accra on 18 August. This event was the final act in the anti-
kalabule drama. Another event that galvanized the people to embrace the moral aspirations of the revolution and one that gave Rawlings and the AFRC the legitimacy they needed to continue their task of nation building was the public executions of former head of state, General Acheampong, and General Utuka, the former Commander of the Border Guard. Among those in the second round of executions were former head of state, General Fred Akuffo, General A. A. Afrifa, air Vice Marshall G. Y Boakye, Rear-Admiral Joy Amedume, General R. E. A. Kotei, and former commissioner for Foreign Affairs, Colonel Roger Felli. These actions evoked a general awareness that this regime was not like any other and it meant business.

Reflections of Rawlings and the AFRC Period

Much of Rawlings’ energy and the activity in those hectic months was bound up with talking to the people: in quiet rooms, in formal interviews, in market places, on roadsides, and from the roof of a Landrover or armored vehicle. Over and over again, in speeches throughout the country, he constantly urged people to be aware that this was their revolution. It was they who were calling their past rulers to account for their deeds, and the future of Ghana was in their hands.

To the amazement of most foreign observers, the parliamentary and presidential elections were held on schedule and under conditions of amazing calm and fairness. The country was absorbed in the outcome of the elections as the results were published, and by 22 June, it was clear that the People’s National Party had won a narrow overall majority. But because there was no clear winner in the presidential election, a run-off election was scheduled for 9 July between PNP’s Dr. Hilla Limann and the Popular Front Party’s Victor Owusu. On 8 July, Limann won the presidential
election by a large majority over his opponent. There then began a curious relationship between Limann and the AFRC, as both prepared for the transfer of power.

At the end of August, Rawlings reflected that since he was confident that the “house-cleaning” operation of the AFRC would be continued by the Limann administration, he would be handing over power a week early on 24 September, 1979. He then looked back and had reason to be proud of the achievements of the June 4th Revolution.

In purely economic terms, the achievements of the AFRC’s brief term in office was impressive. According to Jeffries (1989), the methods of the AFRC may have been crude, and Rawlings constantly had to intervene and apologize for some excesses of the army, but there is no doubt that the AFRC slashed inflation almost instantly, bringing prices down to “more tolerable levels.” At the same time, continues Jeffries, they raised the official prices paid to farmers in order to encourage agricultural production. The cocoa price in particular went up by 50 percent, and the entire upper hierarchy of the Cocoa Marketing Board (CMB) was replaced.

Several companies had their assets seized by the state on account of trade malpractices, and numerous foreign businessmen, mainly Lebanese, were deported for illegal deals. A special commission was set up to investigate and collect unpaid taxes, leading to the recovery of huge revenue for the government. Similarly, strenuous efforts were made to collect unpaid debts owed state corporations. In monetary terms, approximately C23 million was brought into the government coffers during this three-month period, but more significantly in the long run was the awakening of a new tax consciousness among Ghanaians. The greatest achievement of the June 4th Revolution, Jeffries opines, was the awakening of the spirit of the
people in terms of political participation and social responsibility, and, for this, Rawlings was confident the country was heading in the direction of reform.

On 24 September 1979, the Third Republic of Ghana was formally inaugurated, with Rawlings making a short speech before handing over power to his successor, Dr. Hilla Limann. In his remarks, Rawlings reminded the assembled members of Parliament and dignitaries of the appalling state of the country before the June 4th Revolution. According to Shillington (1992), he emphasized that while the people of Ghana were suffering from lack of food, poor health services, exorbitant rent, and the effects of inflation, "there were others in society who were dipping their hands in the nation's coffers so that they and their families could live in opulence and enjoy conspicuous consumption" (p. 23). The achievements of the AFRC in clearing this corrupt state of affairs and replenishing the government coffers was not an easy task, according to Rawlings, but more importantly, he emphasized the "new consciousness of the people" who had been awakened by the June 4th Revolution and would hold any future government accountable.

The Third Republic in Ghana and the Limann Administration

Nugent (1995) discussed the admonitions of Rawlings to Limann during the inauguration of the Third Republic, when he said, "... never lose sight of the new consciousness of the Ghanaian people" (p. 79). Rawlings then went on:

Never before have the eyes of so many focused on so few, Mr. President. The few are you, the illustrious members of our new civilian administration. The many are those in the factories and on the farms, in the dormitories and junior quarters who will be watching you with eagle eyes to see whether the change they are hoping for will actually materialize in their lifetime. We know you will deliver the goods. That is why we have turned a deaf ear to those who have entreated us to stay on a little longer, because our job is not complete. We have every confidence that we shall never regret our decision to go back to barracks. (Nugent 1995, 84)
The very strength of the PNP machine, according to Nugent (1995), was to become a liability in the long run for Limann once he had assumed office. Having no personal power base of his own within the party, Limann became captive to those powerful party interests that had engineered his election, and they expected something in return for their investment in the form of patronage. The result of this anomaly, Nugent observed, was the limitation placed on Limann to act with the freedom of an elected executive president. His government quickly became bogged down with constitutional matters, with which Limann had to grapple behind the scenes with the party bosses.

The Limann administration had two limitations at its inception. First, the incoming president and his team had been put on notice by Rawlings’ unconcealed threat in his inauguration address. Second, the civilian politicians who now took office had the immensely difficult task of not only governing the country through difficult times, but also of proving their worthiness. The politicians of the Third Republic, rather than seek to prove their worth through a selfless government, chose to safeguard their own futures by removing what they saw as a major threat to their security: Rawlings and anyone associated with the AFRC.

In doing so, said Jeffrey Herbst (1993), they focused on the symptoms and not the cause of political instability. He observed that in neglecting one factor which always ensures ready civilian acceptance of military intervention in African politics—poverty and despair combined with visible corruption in government, the politicians revealed that they had failed to learn one of the most rudimentary lessons of the June 4th Revolution. Limann, however, recognized the importance of some aspects of the revolution better than most of his colleagues. For example, in his first few weeks in office, he called for the establishment of non-partisan vigilante committees to guard
against the revival of the *kalabule* abuses of the past. The vigilante groups, he had hoped, would become a peaceful civilian alternative to the arbitrary acts of the military in the market places during the AFRC period. Not only was the idea rejected by Limann’s fellow politicians, especially the lawyers among them, but many saw it as a dangerous abrogation of power to the people. If there was a perceived problem confronting the Limann administration, it was the “threat” from the military. Limann was at the mercy of the Military Intelligence, which formed his only source of information about what was going on within the armed forces.

Meanwhile, members within the PNP began circulating rumors designed to discredit the achievements of the AFRC. According to Chazan (1983), Limann announced in November 1979 that the estimated C23 million, which the AFRC claimed to have collected from unpaid taxes and other sources, had never been handed over, and the PNP had been left with nothing in the coffers but huge debts. Contrary to this statement, the AFRC Special Tribunal, which was still sitting under Justice I. K. Abban, confirmed that the C23 million was lodged in a special account in the Ghana Commercial Bank and that nothing had been withdrawn out of the fund by the AFRC. The tribunal would further state that as soon as discussions with the Ministry of Finance and the Accountant-General’s Office were completed, the whole amount would be transferred to the government’s Consolidated Fund. Dr. John Nabila, the Minister of Presidential Affairs confirmed in Parliament in January 1981 that a total of C36 million had been collected directly by the AFRC and handed over to the incoming administration, in addition to C168 million in taxes collected by the Central Revenue Department between July and August 1979. But despite this exoneration, members within the new administration were determined to destroy the reputation of the AFRC.
As if the country's problems were not serious enough, the Military Intelligence submitted a report to the president on 19 November 1979, alleging that a prison break had been masterminded by Rawlings, and that five AFRC convicts had escaped from the Usher Fort Prison. These escapees were officers of whom Rawlings had stated deserved no prison sentence, claiming that their imprisonment was a political ploy to placate some in the heat of the revolution. Rumors started circulating that Rawlings was responsible for the prison break. The political situation was so tense that for some weeks Limann was deluged with reports and rumors of coup plots, and on this final one and the prison escape, he felt he had no choice but to invite Rawlings to the Castle (the official residence of President Hilla Limann) on the occasion of the swearing-in of the Council of States.

While Rawlings was in the Castle, it was announced on the radio and television that he and the other principal officers of the AFRC had been retired from the armed forces effective immediately. During the next two years, Rawlings was perpetually watched and followed, and those of his friends within the ranks who visited at home were sometimes chased off by Military Intelligence. Numerous privates and Non-Commissioned Officers (NCOs) who had been active within the AFRC were dismissed from the armed forces.

While all this was going on, certain lawyers were making strenuous efforts to reverse the decisions of the AFRC Special Courts, especially those that were protected by the Transitional Provisions of the 1979 Constitution. This was another dimension of the political infighting that will cause instability in the long run. In my opinion, the political operatives in Ghana during the Third Republic, especially the lawyers, did a lot to exacerbate the tenuous political situation. They not only showed a lack of respect for the rule of law, which they had supposedly been sworn to
uphold, but they were blinded by their greed and inordinate ambition, thereby sacrificing the political stability and welfare of the people for their selfish gains. They eventually succeeded in plunging Ghana into the political abyss, signaling the beginning of the end for the Third Republic and the Limann administration.

The Beginning of the End for the Third Republic

The economic situation that the Limann inherited in September 1979 was on the brink of collapse and national crisis. The AFRC’s hammering of consumer prices, following the currency exchange of the Akuffo regime, had succeeded in reducing inflation reasonably. But once the hammer of the AFRC was lifted, inflation went soaring again. Not only did the economy take a free fall, but many observers have indicated that the AFRC had stayed too briefly in office to develop any fiscal or monetary policies to tackle the problems of underproduction and unemployment. To exacerbate the economic situation, the economic advisers of the PNP seem to have relied on the naïve belief that the AFRC surplus funds would enable them go on an importation binge in their first few months in office. They then flooded the market with consumer goods in order to satisfy their election promises and also curb inflation.

In practical terms, however, not only was the necessary foreign exchange unavailable, but flooding the market with imported consumer goods only created a temporary illusion of prosperity. According to Ewusi (1982), the economic illusion of the period, in the long run, did little more than open opportunities for a renewal of kalabule corruption. He observed that the first one hundred days of the Limann administration were characterized by an air of inactivity. It took several months and a team of ministers to get them through parliamentary confirmation, and then to
enunciate clear economic plans for the country. For example, the government took too much time to announce clear policy initiatives about the one sector of the economy that formed the basis of any long-term economic growth—agriculture. In fact, the government did nothing for six months until it finally came up with an agricultural program. When the government program was announced, it did not do more than bring more land into state ownership, a plan that seemed to many as declarations of government's intent to treat agriculture as a priority. Ewusi observed that it was not until 1981 that any decisive action was taken to help individual farmers, with a serious increase in producer prices for export crops.

Meanwhile, inflation was soaring, to 70 percent in 1980 and 100 percent in 1981. The minimum wage of C4 a day was raised to C10 and finally to C12 in November 1980. But then in July 1981, when presenting his budget to Parliament, the Minister of Finance showed the political insensitivity of blaming the spiraling inflation on the increase in minimum wage levels, at a time when government ministers and other senior officials were earning C4300 a month with huge expense allowances.

The public perception of those years in Ghana was primarily one of poverty and hardship for the majority, contrasted with the wealth and self-satisfaction of the elite. The disillusionment of the workers and the unemployed was reflected in the widespread strikes in every sector of the economy, coupled with a rise in the incidence of armed robbery. The Limann government alienated many supporters in using heavy-handed tactics with striking workers in the public sector, by dismissing those who went on strike for less than 10 percent increase in salary in the face of inflation approaching ten times more than that amount. For example, in June 1980,
the government dismissed the entire workforce of Ghana Industrial Holdings Corporation (GIHOC) for holding rowdy demonstrations in Accra.

On the second anniversary of his administration, Limann admitted that the success of his government's efforts was being jeopardized by the malpractices of over- and under-invoicing, short loading of goods, and evasion of taxes. According to Herbst (1993), Limann prophetically warned his colleagues, “We shall fail to achieve our objectives and may even end up in a national disaster again” (p. 101). But this plea would not only fall on deaf ears, but there was little he could offer in the next year beyond promising that agriculture would continue to be the “priority area” and that more money would be spent to improve the infrastructure such as roads and bridges.

On the political front, the continued ineffectiveness of the PNP government aroused frustration in the country as a whole. During 1980 and 1981, opposition to the PNP had begun to coalesce around a number of left-wing groups that were operating outside the parliamentary process. The most radical were the June Fourth Movement (JFM) and the New Democratic Movement (NDM). Both were founded by small groups of students and academic intellectuals who, through the late 1970s, had developed a Marxist-oriented interpretation of the Ghanaian situation. Both groups had drawn much of their political clout from the AFRC period, and it was only after the 24 September 1979 handing over that they became formal organizations.

On the occasion of the June Fourth Movement (JFM) in 1980, which has as its initial inspiration the aim of upholding the gains of the June 4th Revolution and the forced retirement of Rawlings from the Air Force, Rawlings warned, “We shall not look on while the people continue to suffer.” A year later in 1981, at a press
conference to commemorate the second anniversary of the revolution, his attitude had become: “Those who make a peaceful revolution impossible make a violent revolution inevitable” (Nugent 1995, 164).

By October 1981, people in the rural areas had been refusing to put their names on the voting register on the grounds that they had been fooled by parliamentary politicians far too long. To them, promises made at election time were not being fulfilled, and life in the villages, according to one report, was becoming “almost unbearable.” Rawlings picked up on their theme and reiterated his ideology that there should be a gigantic struggle not only for political democracy but also for economic democracy and social justice. The struggle would not be won on the pages of a constitutional document.

Rawlings remained a practical man. His primary concern was for the poor and exploited, as he abhorred the injustice and moral decadence of the country’s ruling elite. From the JFM’s perspective, Rawlings was the ideal leader of the movement because his high profile representation of the June Fourth concept of equal justice and accountability in government brought the movement into the limelight. Above all, Rawlings represented the means by which a revolution might be staged. His forced retirement from the Air Force notwithstanding, his leadership of the JFM brought into the organization a number of radical soldiers, especially from among the non-commissioned ranks. In the meantime, the JFM provided Rawlings with a public platform from which to “sensitize” the people to the political and economic problems in Ghana and to hold the government accountable for its actions.

Just at a time when the Limann government really needed to gain some credibility, the PNP bosses behind the scenes began to pull the party apart in many quarrels over the control of party policy in the build-up to the next elections in 1982.
On 30 December 1981, after a protracted court battle about party hierarchy, Samuel Addae-Amoako, a member of the PNP's National Executive Committee, revealed that he had been made the party's acting national organizer, assigned to pull the party out of the morass of corruption, greed, and dictatorial tendencies into which it had been put by "a few who think they own the party," and also to help PNP win the next election.

By then, however, it was already too late, as a perplexed Limann remarked, "All of us have to be judged by our performance and integrity" (Shillington 1992, 92). Within twenty-four hours, the military had intervened, suspended the Constitution, and proscribed all political parties. In effect, a new era had dawned in Ghanaian political history as the 31 December Revolution was already underway.

The first most people knew of the military coup, which brought about the political challenges and economic struggles in development and nation-building efforts of the Provisional National Defense Council (PNDC) government, was a radio broadcast by Fl. Lt. Jerry John Rawlings on 31 December 1981.
CHAPTER IV

THE POLITICAL ECONOMY OF DUAL TRANSITION IN GHANA

The significance of this study is discussed first by explaining the political and economic processes that were undertaken by the elite in Ghana, especially as they affected the sharing of political power and the allocation of scarce economic resources. It also sheds light on the economic problems faced by the larger society and the development of Ghana as a nation-state. Furthermore, the study is based on the premise that Ghana is a developing country, and power is manifested in a volatile environment.

Lasswell and Lerner (1952) observed democracy as an inspiring ideal but inquired if democratic government is really possible. They also discussed the elitist perspective and said that “government is always by the few, whether in the name of the few, the one, or the many” (p. 7). In using this quotation, Lasswell and Lerner expressed the basic idea of elitism that all societies, including democracies, divide themselves into the few who have power and the many who do not. In every society, there is a division of labor: only a few people are directly involved in governing a nation; most people are content to let others undertake the tasks of government. The elites are the few who have power; the masses are the many who do not. This pattern reflects the fact that an elite is inevitable in any social organization.

Some critical issues are relevant at this juncture, in order to fully justify the need for research on how particular international and domestic forces interact; how they determine policy preferences, political alliances, and actor behavior during
economic crisis; and what the ramifications of these policies are for a country’s social, political, and economic survival. The questions raised are: What is the process of distributing power? Is power concentrated or decentralized? Is power responsible and accountable, and if so, to whom? What are the safeguards against the abuse of power? Are the abuses of power easily correctable?

According to Ayee (1994),

in the developing countries of Africa, Asia, Latin America, public policies do not get implemented at all, and those which do manage to get through the tortuous process of implementation, often look very different from what the framers originally intended. This is mainly because the process of implementing public policies is a focus of competition in developing countries, which is itself engendered by the characteristics of the political systems themselves, such as the remoteness and inaccessibility of the policy-making process to most individuals and the extensive competition generated by widespread need and very scarce resources. (p. 205)

Fred Riggs (1964) said that, while in the developed countries much political activity is focused on the input stage of the policy process, in the developing countries a large portion of individual and collective decision-making, the representation of interests, and the emergence and resolution of conflict occur at the output stage. Riggs observes that “delayed politics is a major feature of the implementation process in developing countries” (p. 57).

Design and Implementation of Structural Adjustment Programs

The design and implementation of structural adjustment programs (SAPs) in African countries has been very much a “matter of learning by doing.” By all accounts, none of the International Financial Institutions (IFIs) was equipped for the dominant role they played in Africa in the 1980s—and in Africa itself, despite various attempts by the Economic Commission for Africa (ECA) and the Organization of African Unity (OAU), no viable alternative exists. The International Monetary Fund
(IMF), on its part, has traditionally focused on short-term lending (usually no longer than three years) to correct payment imbalances, but sadly, it has very little experience with low-income countries, such as Ghana. Although the World Bank has far more experience with low-income countries, its focus until the late 1970s has been almost exclusively on project lending.

According to a 1988 World Bank Report, the Bank acknowledges that “some early Structural Adjustment Loans (SALs) caught the Bank unprepared to give specific advice on a number of instances” (p. 46). Structural adjustment lending was initiated in 1980, and by the end of the decade, the share of structural and sectoral adjustment loans had reached 25 percent. The initial expectation, however, was that a country’s SAP would last between three and five years, by which time the economy would be restored to good health. Unfortunately, a short time horizon became evident in 1981 in the first of the Bank’s major reports on Africa, *Accelerated Development in Sub-Saharan Africa*, often referred to as the Berg Report (World Bank 1988).

*Accelerated Development* proposed a shock treatment for African economies based on “getting the prices right.” The main focus was on the exchange rate, prices for commodity prices, domestic interest rates, and wages. The intention of the SAPs was to assist countries in overcoming balance of payments problems by providing finance for approved programs of policy reforms. The World Bank’s early approach dovetailed neatly with the IMF’s. Subsequently, the Bank broadened its perspectives, admitted that adjustment would be a far longer process than it originally envisaged, and consequently placed much greater emphasis on longer-term considerations in restructuring African economies. Its perspective has increasingly diverged from that of the IMF (World Bank 1981).
Specifically, the World Bank's SALs in Africa have embraced the following conditions: (a) devaluation (although this has sometimes been left to the IMF); (b) reductions in tariffs and quantitative restrictions; (c) reduction of budget deficit by decreasing government expenditure (especially on subsidies for foodstuffs and agricultural inputs) and raising revenue through user charges for education, health, and water supplies; (d) restructuring of the public sector through institutional reforms, including managerial changes, capital restructuring, and technical assistance; (e) divestiture of public corporations; and (f) agricultural reform, including increased producer prices, reduced subsidies on inputs, reduction in the scope of operations handled by public agencies or their complete abolition, and improved research and development.

In retrospect, many observers now acknowledge that the IMF and the World Bank have enjoyed some success in bringing about a degree of macroeconomic stabilization in some Third World countries. In particular, as of the late 1980s, more realistic exchange rates did prevail throughout most of the African continent, and budget deficits have been reduced in many countries. It is questionable, however, whether these changes have been on target, or whether reforms under SAPs have provided a basis for sustained future growth. For example, massive devaluation occurred in some countries. In Ghana, the currency, cedi, was depreciated by 6000 percent in nominal terms (90 percent in real terms) over the period 1982–1987. According to Commander, Howell, and Seini (1989), the World Bank acknowledged that changes of this magnitude can be very destabilizing. The simple reason, they said, was that large devaluation could dramatically increase the prices of essential inputs for agriculture and industry, such as imported fertilizer for agriculture. Commander suggests the timing and sequencing that would become crucial, because
if producers are to invest for the future, higher prices for their produce must be achieved before they are faced with significant increases in the cost of their inputs. Other commentators on political economy doubt that large—and often repeated—devaluation is an effective prescription for many African economies given the relatively low response of domestic supply to price changes coupled with the relatively unresponsive demand for imports when no domestic substitutes are available. One economic study suggested that devaluation in Africa has not led to an improvement in trade balances but, among other things, contributed to a fall in output as a consequence of the reduced capacity in import of essential inputs.

Some reduction in tariffs and easing of restrictions on imports, some experts believe, is necessary to force African enterprises to become more competitive in international markets, such as occurred in the cases of the Asian Tigers (South Korea, Taiwan, Singapore, and Hong Kong), but what is important here is striking a healthy balance between admitting competition and running the risk of destroying Africa's fragile industries. Even the World Bank, in a report released in 1994 which reflected the evolution of its ideas over the 1980s decade of structural adjustment, acknowledged there was a need for some continued protection of local manufacturing. The other areas of reduction of budget deficits, abolition of subsidies, privatization of state-owned enterprises (SOEs), and other stabilization measures, as they relate to Ghana, will be discussed later.

At this point, however, the study focuses on the political development of Ghana for the period starting in 1948, when it was under British colonial rule. It then continues through the 1950s, when the first Constitution was written, and in 1957 when Ghana gained independence under the Convention People's Party (CPP) led by Dr. Kwame Nkrumah. The political journey continues with an analysis of the eight-
year rule by the first elected government in Ghana under the CPP, the military coup which toppled the Nkrumah government in 1966, and the subsequent political transitions through seven military and civilian governments (five military and two civilian) and three other constitutional arrangements.

The Provisional National Defense Council (PNDC) government, led by Fl. Lt. J. J. Rawlings, which came to power on 31 December 1981, not only ended the political instability, but also had the unique opportunity of holding on to power for eleven years. It also presided over the most ambitious political and economic reform than any country has ever experienced in sub-Saharan Africa. PNDC efforts at making this a reality culminated in the promulgation of the 1992 Constitution, elections to the various legislative bodies, and the swearing in of J. J. Rawlings as the first popularly elected president in almost twenty years. This fifty-year cycle of political, economic, and social change in Ghana will climax with the elections of 1999 that will phase out the Rawlings era and usher in a new president and a new government.

Ghana’s Ethnic and Religious Groups and Political Regions

In present-day Ghana, there exist approximately 100 ethnolinguistic groups, which can be further subdivided into numerous cultural and linguistic units. Major ethnic groups are the Akan, Ewe, Mole-Dagbane, Guan, and Ga-Adangbe. Languages in Ghana belong either to Kwa or to Gur subfamily of the Niger-Congo language family.

According to Mortimer (1994), Kwa speakers are found south of the Volta River, and include the Akan, Ewe, and Ga-Adangbe. Gur speakers live to the north of the Volta River. English is the official language used in government, large-scale
business, national media, and school beyond primary level. Based on a 1995 estimate, 62 percent of Ghanaians are Christian, 15 percent Muslim (believers in Islam), and 23 percent indigenous or nonbelievers. Christianity predominates in the central and southern regions, while Islam is common in the north.

There are ten political regions in Ghana (see Figure 2). These regions also represent the administrative and political divisions of people in Ghana today. One of the most important is the Akan, who live in the coastal savannah and forest zones of southern Ghana, who had been living in well-defined states by the early sixteenth century. By the end of that century, the states of Mamprusi, Dagomba, and Gonja had come into being among the Mole-Dagbane peoples of northern Ghana. In the extreme north of present-day Ghana are a number of peoples who did not form states in the pre-colonial times and are organized into clans and look to the heads of their clans for leadership. They are the people still living in traditional societies, according to Western political theorists, and historical accounts show that Islam, introduced into the region centuries ago by trans-Saharan traders or by immigrants from North Africa, has heavily influenced them.

The best known of the indigenous states of Ghana is the Asante, a term that applies to both people and state. It is an Akan-based society, which began to expand from the area around Kumasi, its capital, allying with or subduing neighboring Akan state. Eventually, Asante incorporated non-Akan peoples and kingdoms, including Gonja, Dagomba, and Mamprusi into an empire that encompassed much of modern Ghana and parts of neighboring Cote d’Ivoire. Along a network of roads radiating from Kumasi flowed communications, tribute, and above all, gold, over which the Asante held a monopoly.
Since gold is found in several regions of West Africa, including the headwaters of the Niger River and the forest zone of modern Ghana, the gold trade became well established in antiquity and helped tie the peoples of Ghana into a trans-
Saharan commercial network that stretched from the West African forest zone across the Sahara to ports on the Mediterranean. According to McLaughlin and Owusu-Ansah (1994), it was gold that drew European traders to the Gulf of Guinea, with the Portuguese the first to arrive in the late fifteenth century, who set up an outpost on Ghana's coast. During the next century, the lure of gold had given way to slave trade because of the demand for labor in the Americas.

Trading in slaves as well as gold, the Dutch, the Danes, the English, and the Swedes eventually joined the Portuguese on what had come to be known as the "Gold Coast." By the early nineteenth century, the British were the most important European power on the Gold Coast, and thereafter, they extended their control inland via treaties and warfare until around 1902, when much of present-day Ghana was a British crown colony. Ghana's current borders were realized in 1956 when the Volta region voted to join Ghana.

The British colonial government, though authoritarian and centralized, nonetheless permitted Ghanaians a role in governing the colony. The policy of indirect rule meant that chiefs and other leaders became agents of the colonial administration. To the British, this system of rule gave Ghanaians experience with modern, representative government to an extent unparalleled in sub-Saharan Africa.

Dr. Kwame Nkrumah, the leader of the Convention People's Party (CPP) and Ghana's first prime minister and president, and most of the political leaders of the pre-independence era were mostly of the Asante (Akan) descent, and this was partly the reason for the near exclusion of the northern people, who were seen as part of the traditional society in Ghana, from the political process. Dr. Hilla Limann, a northerner from the Upper East region, would dispel that myth when his party, the
People's National Party (PNP), won the presidential elections in 1979 to inaugurate the Third Republic.

As Bates (1988) observed, there is an important theme about democracy and development in Ghana. National politics in Ghana, as in so much of independent Africa, has really meant the politics of the capital city. The major political actors are, for all practical purposes, located within a very small perimeter around the Accra city limits, particularly if one includes the adjacent port city of Tema. Bates' reasoning is that rural communities, which is to say agricultural interests, have rarely been effective in translating their economic importance into political influence. One of the reasons Bates gives for this assertion is that there is an absence of political opposition by the farmers to the myriad of agricultural and other public policies put forth by the government, due principally to the formidable problem of collective action faced by export-oriented farmers in Ghana.

On the question of collective action, the political acquiescence of the farmers in Ghana has been greatly undermined. Part of the cocoa farmers' difficulty has to do with sheer physical distance from the capital. Another problem is urban bias, which is the product of simple proximity to the heart of political power on the part of some groups. This is not uncommon, as the farmers are at a relative disadvantage because of the difficulty they face in making their presence felt in the capital city.

One of the arguments of this study is that the restoration of democratic politics at the national level means nothing if the new political leaders in Ghana do not endeavor to include the farmers in the nation-building process in order to empower the geographical regions or social groups that contribute a substantial share of Ghana's income, namely, the cocoa and food farmers of the Volta, Western,
Brong-Ahafo, and Ashanti regions, which are four of the country’s largest farming regions.

The Case Study Approach and Relevant Literature on Ghana

The approach used in this thesis is that of a case study. A case study of Ghana’s distinct history of political development has relevance for other African countries, and according to Eckstein (1992), “single case study also can have powerful, even conclusive theoretical results” (p. 176).

Ghana’s experience as a nation lends itself to a historically sensitive method, because it reveals causal consequences and how they relate to existing political and economic reforms. The task then is to meaningfully explain the given cases in a theoretically coherent and consistent manner. Drawbacks to the use of case study approach are that they suffer from the problem of too few cases, too many variables, and a lack of theoretical vigor. However, the empirical richness of a case study can be derived from using a theoretical framework, which builds on past research.

The methodology follows a long-standing tradition within political economy, which focuses on actors whose power is grounded in the control of economic and organizational resources through the use of coercive force, and who vie with each other for scarce resources in the pursuit of conflicting goals. Olukoshi (1992) observed that the actors involved in the politics of Nigerian economic policy-making are from two main categories. One set of forces, he said, is external but relevant to the reproduction of the economy, and the other is domestic and located within the state, economy, and society. The external forces include the private international creditors organized in the London Club and the official creditors organized in the Paris Club, the IMF, and the World Bank. They recommend SAPs as the “ideal
solution" to the problems of balance of payments crises and indebtedness. The domestic forces included the various sectors, classes, and associations, as well as state elites, who are prone to the same cleavages that divide society. Olukoshi concluded the domestic forces are divided between the opponents and supporters of SAP. In Ghana, the political wrangling between the PNDC-led government and other political organizations almost derailed the movement toward democracy during the late 1980s and early 1990s.

One of the observations of this study is that the implementation process may be the major arena in which individuals and groups are able to pursue conflicting interests and compete for access to scarce resources. It may even be the main conduit of interaction between the government and citizenry, and between public officials and their constituencies. Moreover, the outcome of this competition and interaction can determine both the content and impact of programs established by government elites, and thus influence the course of the country's development. Grindle (1980) cautions that "given the concentration of political activity on the implementation process, policies and programs will be even more difficult to manage and predict, and may become even more subject to alteration in the Third World than elsewhere" (p. 19).

Joseph Ayee's (1994) work, *An Anatomy of Public Policy Implementation*, was partly based on two models of policy implementation, namely, the complexity of joint action and implementation as evolution. These two models were jointly propounded by Majone and Wildavsky (1984). The complexity of joint action model refers to the number of actors, principals and participants, whose agreement—either explicit or implicit—must be secured before a policy can be successfully implemented. In other words, when a program or policy depends on so many actors
and participants with differing perspectives, there are numerous possibilities for disagreement and delays that reduce its successful implementation.

Conversely, the model of implementation as evolution characterizes implementation as a learning process, exploratory in nature, and involves hypothesis testing, during which an organization can utilize implementation failure as a route to implementation success. According to Majone and Wildavsky (1984), “When we act to implement a policy we change it” (p. 163).

Ayee’s 1994 work is an analysis of the process of consolidation of Ghana’s decentralization policies and how they were implemented since independence in 1957, with special emphasis on the 1974 and 1988/89 decentralization policies/programs. He observed, specifically, that the implementation of decentralization policies and programs in Ghana involves fundamental questions about conflict relating to “who gets what, when, and how,” in society, and what is implemented is the product of a political calculus of interests, where interests, competing for scarce resources, determine the outcome of decentralization and implementation initiatives. Ayee’s thesis is that, as the site of implementation becomes more dispersed, both geographically and organizationally, the task of executing the decentralization programs becomes more difficult, given the number of political, social, and economic interests involved and the fact that the implementation process is not seen as a learning process, because mistakes were repeated and original objectives of the programs were not redefined in light of the information derived.

The author’s position is that the model of complexity of joint action can enable us to explain the chances of the implementation of decentralization policies in Ghana. On the other hand, the model of implementation as evolution gives us a sense that succeeding governments were unable to utilize implementation failure as a route
to implementation success, hence the various unsuccessful attempts of the decentralization process.

The Dual Transition Program in Ghana

One of the outcomes of the research for this study is that there is no agreement on the nature and form of the relationship between economic and political reform or why Ghana's dual transition, embarked upon in the 1980s and early 1990s, failed or succeeded. While some scholars find the SAP compatible with democracy, others consider it totally unrelated, and while some attribute the failure of dual transitions to domestic politics, others argue that such failure is a consequence of influences from the international environment.

Some of the arguments are found in modernization literature, which focuses on domestic, social, and economic structures; and in dependency literature, with its focus on the structure of international capitalism. For modernization theorists, such as Inkeles and Smith (1974), the more modern the socioeconomic structure of a country, especially a developing one, the more the likelihood of economic growth and democratization. The dependency theorists, on the other hand, argue that the more integrated a developing country is with the world capitalist system, the less the likelihood of economic growth and democracy. According to Brewer (1980), dependency theory starts with the simple proposition that the world economic system is designed to promote the economic interests of the First World, which has resulted in the exploitation of the Third World, first by colonialism and subsequently by unfair trade and banking practices. If the Third World is to develop, he concludes, the rules of the world economic system must be altered to benefit all the countries of the world, not merely the rich.
Another school of thought, represented by students of the bureaucratic authoritarian systems, has refined the argument of the dependency theorists by contending that the contradictions generated by the drive for rapid development through import-substitution industrialization (ISI) tend to reduce the chances of democracy, because bureaucratic-authoritarian regimes repress the working class in the attempt to "deepen" industrialization. According to Heady (1984), the failings of bureaucracy in the Third World can be attributed to four key factors: (1) bureaucratic structure, (2) bureaucratic behavior, (3) mass attitudes toward the bureaucracy, and (4) the political and social environment in which the bureaucracies operate. Farazmand (1991) observes that as long as political leaders make policy and the bureaucracy executes the policy, if the bureaucracy lacks the capacity to implement the policies of the political leadership, those policies will go for naught. He concludes that it is one thing to promise development; it is quite another to achieve it.

These approaches taken individually raise more questions than they answer. For example, if the domestic social structure determines the likelihood of economic growth and democracy, as was evident in Ghana, there should be observable differences in the transition experiences of countries with differing domestic social structures. Also, if the structure of the world capitalist system independently determines economic and political phenomena, Ghana, Nigeria, and all other countries that are similarly situated within the world system should undergo transitions of the same nature. Unfortunately, while the dual transition programs were embarked upon in Ghana and Nigeria almost around the same time (Ghana in 1984, Nigeria in 1985), there exists one stark difference in the success or failure of such a move. In Nigeria, the choice of dual transition by the Babaginda administration raises questions on the relationship between capitalist development and democracy, and
more specifically, on why the dual transition was chosen and the reasons for its failure.

Early in its tenure, the Babaginda regime publicized what it identified as the beneficial aspects of SAP in order to drown out voices of its critics. It also promised an early recovery for the Nigerian economy and a political transition that would surpass any previous government in history by its flawless execution. Not only did the regime renege on most of its earlier promises, but in June 1993 it canceled the results of the presidential elections, which were designed as the final stage of the political transition. This was after meddling with several aspects of the political transition, by making and breaking its own rules with reckless abandon. By November 1993, the Babaginda regime could not point to any concrete examples of recovery or steady progress toward a democratically elected government.

In the wake of this anomaly, Babaginda had become so unpopular and discredited that the pressure of negative public opinion and numerous demonstrations forced him to withdraw from office. Before long, the interim government that was left in charge collapsed just as rapidly as it had been created. A period of political turmoil ensued, and the country's economic problems deepened. General Sani Abacha seized power, imposed a dictatorship in the country, and terrorized Nigerians, denying the country any program of economic and political reforms until his death in June 1998.

By contrast, the dual transition put in place by the PNDC government of Ghana and led by Rawlings stayed the course and yielded some good results. Early in 1982, the government put in place an economic review committee, which was charged with the task of doing some empirical research to support the case for a radical re-evaluation of the cedi. The committee, headed by Dr. Kwesi Botchwey, a
Harvard economist, announced in a nationwide broadcast on 30 December 1982 some basic principles and outline for a four-year Economic Recovery Program (ERP). In the report, the devaluation issue was presented as a subsidy on specific exports—timber, minerals, cocoa, coffee, and manufactured goods, while imports, apart from oil and basic foodstuffs, were to be surcharged. According to Leith and Lofchie (1993), among the many reasons why the Rawlings government chose to proceed with an official policy of structural adjustment in 1983 was the fact that so many of Ghana’s domestic prices, including those paid by government agencies, had already risen to reflect the scarcity in the price of foreign exchange. The Ghanaian excess demand pressure under the previous policy regime was bottled up by quantitative restrictions on international trade and payments. Domestic prices of most imports reflected the scarcity price of foreign exchange rather than the official exchange rate, and in these circumstances, a devaluation would mean that the official local currency price of foreign exchange would rise toward the scarcity value of foreign exchange, but the scarcity value of foreign exchange would be unaffected in the short run. In their opinion, the de facto price adjustments that preceded official adjustments paved the way for an official change of policy, and devaluation would not have changed the price structure of importable goods, whose prices had already increased in the market place to reflect the diminished real value of the cedi.

The emphasis of the ERP, at this stage, was upon increased production in agriculture and industry, combined with reducing the budget deficit by cutting government subsidies and establishing a more efficient collection of revenue. In February 1983, the IMF accepted the ERP as a sound basis for the advancement of credits, and all that remained was to present the PNDC formal budget in April 1983,
at which time people would find out how these proposals would affect their individual pockets. Two events, however, threatened the reforms.

First, on 17 January 1983, the Nigerian government announced that it was expelling all foreign nationals without valid immigration documents, including 1.1 million Ghanaians. Since Nigeria’s oil-boom years of the 1970s and Ghana’s parallel decline, tens of thousands of Ghanaians had been migrating to Nigeria each year in search of work. It was dire economic necessity that drove them there. By the deportation order, over one million Ghanaians were to be out of Nigeria by 2 February 1983. The PNDC responded immediately, first by setting up a task force, and then by sending two ships of the Black Star Line to Lagos and another one to Lome in neighboring Togo, where many Ghanaians were heading in order to avoid harassment by Nigerian officials in Lagos.

The government was determined that the problem of the refugees should not become a major drain on the limited resources of other African countries. The Rawlings government took the view that this was a humanitarian exercise which called for exceptional effort on behalf of the whole nation. Rawlings himself headed a major propaganda effort to persuade everybody to cooperate. The private sector responded by donating funds and transportation for the exercise, and state corporations agreed to take on as many workers as they could. In just two weeks, 1.2 million Ghanaians were evacuated from Nigeria. Over the next few months, in an exercise that amazed the international agencies, Ghana managed to re-absorb the returnees into national life, although they represented nearly one-tenth of the total population. This re-absorption, however, was not without its cost. The economy was already in a state of major crisis. The drought-stricken countryside, which was to absorb all these people, was now the scene of bush fires, which raged out of control,
destroying thousands of acres of productive crops, including well-established cocoa farms.

It was under these circumstances that, on 21 April 1983, the Secretary of Finance and Economic Planning, Dr. Kwesi Botchwey, announced the toughest austerity budget of any government since independence. Suffice is to say that all over the country, the people were visibly shocked by the severity of the budget. There were several anti-government demonstrations, so much so that the strength of the outcry drove Rawlings to deliver an unusually long radio and television broadcast to the nation. As a preface to the national address, he was careful not to gloss over the hardship that lay ahead, but sought to persuade the people that there was no alternative. The tone he took implicitly recognized that no ordinarily elected government of party politicians, with an eye to the next election, would have been able to implement a package of measures so severe.

According to Ewusi (1987), Rawlings informed Ghanaians:

... if the PNDC government was concerned with cheap popularity, we would not have presented you with such a budget. It is hard to ask someone who has already tightened his belt to the last hole to tighten it even further ... but the steady economic decline which has affected the country over the past decade has to be arrested and the longer we wait, the harder it would be ... (p. 56)

After several months of hectic public argument and with the continued support of the many institutions of government, Ewusi continued, the PNDC won reluctant acceptance of the budgetary measures from the majority of Ghanaians because they believed in Rawlings’ integrity and they saw the government’s policy as directing wealth away from the rich and privileged and towards the rural farmers upon whom the wealth of the nation ultimately depended. The popularity of Rawlings in neighboring African countries is something that has never ceased to amaze Ghanaians and worry other heads of government. Shillington (1992), observed that
the admiration for Rawlings stems partly from his heroic stand against corrupt authority back in May 1979, when he first burst into the political limelight in Ghana as the leader of a coup, a stand which was reinforced by the Armed Forces Revolutionary Council's (AFRC) subsequent execution of several former rulers for corruption. The PNDC's ousting of the old ruling elite in the 31 December 1981 coup, said Shillington, merely confirmed the idea in many people's minds that here was a man who understood the aspirations of the common man.

From research conducted for this study, in the years since the launching of the 31 December Revolution, Rawlings' clear concern for the poor and the exploited and his declarations of revolutionary "power to the people" have been an intoxicating brew, much sought after in the autocratically ruled neighboring West Africa, such as the despotic regimes of Babaginda in Nigeria and the late Samuel Doe in Liberia. Rawlings, to many, is a larger-than-life character who has fascinated admirers and opponents ever since his first appearance on the political scene in 1979.

The study believes that the difference between the success or failure of the dual transitions simultaneously embarked upon by Ghana and Nigeria lies not so much in the modernization or dependency theories or the bureaucratic-authoritarian model, but rather in the simple disposition of the leaders at the helm of affairs in the respective countries. While to some this argument might seem naïve or superficial, there is ample evidence to show that the characteristics of leaders—civilian or military—have a lot to do with the type of public policies they initiate and eventually implement. In Nigeria, Babaginda was woefully corrupt, repressive, and inept in presiding over a government that was severely criticized for the manner in which it attempted to implement the transition program, which often vacillated between liberalization and repression.
Ghana, on the other hand, was able to weather the storm despite many severe conditions, both on the economic front and in the hostility it endured by many Western governments, such as the United States, Britain, and so on, because of Ghana's close links with Cuba and Libya, and the PNDC Chairman's fearless anti-imperialist rhetoric, which helped to make Rawlings one of a select group of targets of Reagan's foreign policy.

From the historic low of 1983, conditions in Ghana could only improve. Much of the credit for the country's recovery in the years that followed must be laid at the doors of the Ghanaian people themselves, whose courage, faith, and determination was what made any economic revival possible. The government, however, also deserves credit for taking the necessary difficult decisions in economic policy and implementing them with clarity of vision. However, the PNDC government could not have carried through such a fundamental restructuring program without the acceptance and cooperation of the Ghanaian people. Moreover, that cooperation could not have been gained by fear alone. It was won in no small measure by the people's belief in the integrity of their leader, Chairman of the PNDC, Flight Lieutenant Jerry John Rawlings.
CHAPTER V

DEVELOPMENT CHALLENGES FACING GHANA IN THE 1980s AND 1990s: THE RAWLINGS FACTOR

The military coup of 31 December 1981 had been expected for some time, as there were several plots emerging during the early weeks of December 1981, and many had looked to Rawlings for leadership. This time, however, Rawlings wanted to have the control of the ranks from the beginning, as this was not a mutiny against the officers' corps but against the corrupt band of civilian politicians. The element of surprise was also evident as several PNP operatives were arrested at an end-of-year party while others were out of the capital in their constituencies for the New Year weekend.

Broadcasting House was the setting for the address that Rawlings gave in which he declared that this is a "Holy War" against the "enemies of the people":

Fellow Ghanaians, as you will notice, we are not playing the national anthem. In other words, this is not a coup. I ask for nothing less than a REVOLUTION—something that will transform the social and economic order of this country. Fellow citizens, it is now left to you to decide how this country is going to go from today. We are asking for nothing more than popular democracy. We are asking for nothing more than the power to organize this country in such a way that nothing will be done from the Castle without the consent and authority of the people. In other words, the people, the farmers, the police, the soldiers, the workers—you, the guardians—rich or poor, should be part of the decision-making process of this country.

(Shillington 1992)

According to Shillington (1992), one of the results of that speech was the setting up of people's defense committees in the workplace and in every district and village, so that the decision-making in Ghana would not continue to be the preserve
of those whom he referred to as “that pack of criminals in the PNP.” Events in the
country, almost ground to a halt because of the coup, started returning to normal in a
few days as people went about their normal business. By 2 January 1982, as life was
returning to normal, Rawlings made a second, but lengthier broadcast on radio and
television in which he set out in more detail the purpose and direction of the 31
December revolution. He said:

Good evening, fellow countrymen. The attempt to justify the action of 31
December 1981 would presuppose that we Ghanaians do not know and feel
what had been going on since 24 September 1979. Briefly, it has been nothing
short of a clear denial of our fundamental rights as a people to enjoy the
wealth of our labour. This has been the most disgraceful government in the
history of this country. It is the only one in recent times that criminals and
such others like them have become respectable in our society. They have
turned our hospitals into graveyards and our clinics into death transit camps
where men, women, and children die daily because of lack of drugs and basic
equipment. To many of us, if not all of us, democracy does not just mean
paper guarantees of abstract liberties. It involves, above all, food, clothing,
and shelter in the absence of which life is not worth living.

Fellow countrymen, the time has now come for us to restructure this
society in a real and meaningful democratic manner so as to ensure the
involvement and active participation of the people in the decision-making
process. (Ministry of Information 1990, Vol. 3, p. 89)

According to Ninsin and Drah (1987), with that broadcast Rawlings was able
to achieve many things. First, he accused the PNP of deliberately reneging on their
pledge to continue the “house-cleaning” exercise of the AFRC period and made the
case for an impassioned condemnation of the PNP’s record in office. Second, he used
the occasion to announce the suspension of the 1979 Constitution, the dismissal of all
officials of the PNP government, the dissolution of Parliament, and the banning of all
political parties. Third, he announced the creation and assumption of power by the
Provisional National Defense Council (PNDC), members of which would be
published later. Lastly, he used the broadcast to explain the kind of “real” democracy
that he envisioned for Ghana, and with the last phrase, “active participation of the
people in the decision-making process,” he signaled the guiding principle upon which any sensible assessment of the 31 December revolution should be judged.

The Search for a New Political System by the PNDC

On 11 January, a decree formally setting up the structure of the PNDC was published, in which the council assumed all the executive powers of government. Rawlings was made the chairman along with other members. In addition, a National Defense Committee was established to advise the council. The Electoral Commission, which hitherto had been concerned with the registration of voters and the conduct of elections, was transformed into a National Commission for Democracy (NCD), and its primary role would be to “safeguard the democratic process” by ensuring that the central government satisfied the needs of the people. Agyeman-Duah (1987) observed that it was the issue of a new form of people’s democracy and how to implement it that most concerned the PNDC at its inception. He stated that it was the failure of the Third Republic’s form of democracy that provided Rawlings and his colleagues the justification for seizing power, all in the name of establishing a people’s government. He explained that an understanding of the principal philosophy of the PNDC was strongly influenced by the model of revolutionary socialism as espoused by former student leaders and radical intellectuals of the June Fourth Movement (JFM), such as Nicholas Atampugri, Kwesi Adu, Chris Atim, Nyeya Yen, and Sergeant Alolga Akate-Pore. These people, said Agyeman-Duah, articulated the socialist rhetoric which they used to try to convince Rawlings to carry out the people’s revolution.

The JFM’s view of socialism was inspired by what they saw as the gains of the June 4th Revolution. For example, the mutiny of the ranks in the armed forces in
1979 had not only showed the way, but it had proved that the downtrodden could stand up and defy their exploiters in society. According to Jeffries (1989), the events of 1979 during the AFRC period gave the common people a psychological boost. This helped, he said, to embolden these people to demand respect and remind the country’s rulers that they are not only custodians of power and, therefore, answerable to them, but that they rule in their name. Building upon this inspiration, the JFM proposed to the PNDC that the best way to achieve effective people’s democracy was to establish defense committees, such as those in Libya and Cuba.

The Establishment of Defense Committees

The political ideology behind the creation of defense committees was that people would gather together at their places of work, residential community, or village and elect an executive committee that would safeguard their interests and organize the people for whatever task was needed. In the workplace, they would, in effect, be factory-floor trade unions and would thus supplant the Trade Union Congress (TUC) which had become, in the view of JFM and by extension, the PNDC—too bureaucratic and removed from the interests of the workers.

Thus, two new defense committees were created, namely, the Workers’ Defense Committee (WDC) and the People’s Defense Committees (PDC). The WDC would monitor the management of their factories and work places, watch out for corruption in the handling and invoicing of raw materials and finished products, and generally become involved in the day-to-day “decision-making process.” The PDCs, in the residential townships of the cities and the villages of the rural areas, would safeguard the day-to-day interests of the local people, protect tenants from unjust landlords, and see to it that local government services were provided as required.
Jeffries (1989) observed that the model saw the “defense committees” as a combination of industrial democracy and community watchdog. He concluded that the PNDC and other socialists believed that this ideology would provide common people with far greater participation in the social and political aspects that affect their daily lives.

To coordinate the activities of the defense committees and provide a link with the central government, an Interim National Coordinating Committee (INCC) was established. Its members were drawn from both the JFM and the NDM, and in this lay the seeds of ideological conflict, which prevented the development of a clear direction from the center. As a result, the defense committee concept was not properly structured from the beginning, because it depended too much on the goodwill and initiative of the local people. Also, each defense committee had its own concept of the revolution and agenda, and, thus, the initial guidelines specifically excluded the middle class. This was a serious error in judgment. It stemmed from a simplistic division of the population into “citizens” and “people.” Citizens were those people with property and other forms of visible wealth (and looked upon as “enemies of the revolution”), while people were those for whom the revolution was done. This polarization would lead to much verbal and physical abuse on the managerial class, including businessmen and other professionals who had been running the country but were now alienated from the revolution. In the long run, this phenomenon would create problems for the PNDC.

The First Year of the PNDC Regime

The first year of the new regime was typified by the assertion of naked power, the settling of old scores, and a resort to violence. Rawlings and members of his
government had to repeatedly condemn these "excesses of the revolution" as undermining the positive aspects of the process, and declare that they as leaders must bear the responsibility for acts committed in their name. Most people, including those within the government, did not realize at the time, but by July 1982, the revolution had reached a critical point in its historical evolution. It was a time of mounting economic crisis with no clear solution and also a time of internal political crisis, as ideological conflicts within the organs of government were threatening to derail the PNDC.

Rawlings, according to Agyeman-Duah (1987), knew the moment was critical and that the process started in the 31 December revolution was about to unravel. He also realized it was up to him to seize the initiative and use the full powers of his leadership to pull the revolution back on course. A decision was made to give a speech to the nation on 29 July 1982, in which he gave an assessment of the state of the revolution after seven months in office. Rawlings defended the actions of the PNDC by protesting they had never condoned any violence against citizens such as the cases of harassment of innocent civilians by persons who were supposed to protect them. He then promised that, with the aid of the new military tribunals, the government would do everything in its power to get the violent situations under control and punish the guilty.

Rawlings then focused on the defense committees, which had been criticized by many Ghanaians due to their lack of direction and abuse of power. According to Ninsin (1993), certain selfish and misguided individuals were limiting the effectiveness of the PNDC's noble idea of participatory democracy at this time. These elements, he continued, made it difficult for people to see how the revolution had exposed corruption, curbed smuggling, enforced price controls, and, above all,
raised the level of political consciousness in Ghana. The result, in Rawlings’ view, was that the introduction of these institutions had arrested the cynicism and apathy that had gripped the nation for so long.

In order to strengthen the institutions, bring them under greater control, and safeguard their democratic elements, the PNDC created a new National Defense Committee (NDC) to take over the role of the INCC and coordinate the PDCs and WDCs at the local, district, and regional levels. As part of this rationalization, Ninsin (1993) observed, the illogical and negative distinction between *citizen* and *people* was removed and the middle class, managers and other professionals, was encouraged to join and be active participants in the defense committees.

In July 1982, the Association of Recognized Professional Bodies (ARPB), called for a prompt handover of power to constitutional rule. Agyemen-Duah (1987) recalled Rawlings’ response:

>Certain persons and organizations are asking us to hand over power. From what I have said so far and from the nature of their demands, it would appear that what they really want to do is to take power from the people and hand over to them. These persons and organizations are not interested in participating in collective decision-making. What they want is to monopolize power and decision-making. If they are really interested in democratic processes and in the sovereignty of the people, I would advise them to join the people of this country and participate within the framework of the structures we are creating to ensure democratic rule and sovereignty for the people. (p. 176)

Agyeman-Duah observed that it was clear from the speech that the Chairman had given a clear affirmation of his faith in the revolution and had served notice to those who had hoped that, as the nation’s problems became increasingly serious, the revolution would collapse and Rawlings would be forced to hand over power once again to the politicians. Rawlings was determined the stay the course, a sentiment he
emphasized when he said to the ARPB that there was no compromise on this issue, and there was no U-turn.

An article in the *West Africa Magazine* (1982, 11 August, p. 35) had observed that although Rawlings had laid particular emphasis on the political issues of the revolution, it was on the economic front that the 31 December revolution would ultimately stand or fall. The article continued that at the critical moment in the second half of 1982. Ghana’s economic problems were mounting and Rawlings had to address these issues in order to lay the foundation for the tough economic decisions that were ahead. The economy that the PNDC inherited on 31 December 1981 was in a state of imminent collapse, and in order not to give ammunition to the critics of the government for its anti-imperialist rhetoric, the PNDC suspended many aid programs and arrangements that the Limann administration had in the works with the West. As a result, many Western capitalists and bankers hesitated to risk any capital in such a volatile environment. At the same time, the many months of near anarchy in the country meant that industrial and agricultural production had declined, which further exacerbated the food shortage in the country.

The Structural Adjustment Program of the PNDC

One of the first things the PNDC did upon assuming office was to set up an Economic Review Committee (ERC) to assess the extent of the economic crisis and make recommendations for its solution. Two key members of the committee were Dr. J. L. S. Abbey, former Commissioner of Finance in the Akuffo regime and adviser to the AFRC, and Dr. Kwesi Botchwey, a Harvard-educated economics professor at the University of Ghana, and a radical known for his anti-imperialist stance. One other part of the puzzle was the socialist formula of the JFM and its
influence on PNDC’s policy-making, especially at the initial stage of the 31 December revolution. This consisted of three basic ingredients: (1) to require government to deal with corruption in business management, state corporations, banking and financial sectors, civil service, and evaluate personal taxation; (2) to redistribute power (and hence, wealth) to the people; and (3) to solicit aid from fellow-revolutionaries and socialist countries, such as Libya, Cuba, and the Soviet Union.

A Citizen’s Vetting Committee (CVC) was set up to flush out all forms of corruption in society, the defense committees were designated to deal with the government’s re-distributive policies, and delegations were sent abroad to seek aid from other populist regimes. The first two problems, largely domestic, were being handled by the appropriate institutions of government, but the aid-seeking delegation found out that the revolutionary rhetoric of the populist regimes did not result in any substantial benefits for Ghana. Libya’s main contribution to Ghana’s revolution, for example, was a consignment of 28,000 metric tons of crude oil in July 1982, the first of twelve such consignments over the next six months, each on free credit for a year and interest-free repayments after that. The delegation that visited Cuba, Eastern Europe, and the Soviet Union came back with little more than expressions of socialist solidarity.

Rado (1986) observed that the only other sources of outside finance, which Ghana desperately needed to survive, let alone recover, were the banking and donor agencies of the capitalist world of Western Europe and North America, and the only way to get access to their funds was through the backing of the IMF and the World Bank. This seems to be a bitter pill to swallow for the social ideologues of the PNDC and, in particular, the June Fourth Movement. To them, the IMF meant imperialist
intervention in Third World Affairs. Rado stated that what these ideologues failed to realize was that Ghana represents a paradigm when one makes a case for policy-induced economic waste, where previous governments had implemented a set of economic policies that proved self-destructive, and where such policy thrusts have failed to generate any sustained economic development since independence in 1957.

According to Leith and Lofchie (1993), while there were some relatively brief episodes of policy reform, the various civilian and military governments that ruled Ghana for the first twenty-five years after independence continued in the same general direction of economic waste until April 1983, when the PNDC initiated the Economic Recovery Program (ERP). To the authors and other political economists, the ERP has achieved considerable success. One of the notable aspects of Ghana’s Structural Adjustment Program (SAP), they observed, is its longevity when compared with other prominent efforts at structural adjustment in sub-Saharan Africa, Nigeria’s failed attempt at this economic development program being a case in point. Leith and Lofchie pointed out that Ghana’s ERP, after nine years in existence in 1992, was still enjoying the government’s official commitment in furthering the process of economic transformation. The Ghanaian experience, they argued, first saddled with economic atrophy and then lifted with structural adjustment, thus cast a considerably positive light on the important issues of economic policy, and the interaction between economics and politics in developing countries—the main premise of this study. (See Appendix B.)

The Reversal of Fortune in Ghana: From Prosperity to Austerity

At the time of independence, Ghana was one of the most prosperous and promising of sub-Saharan Africa’s new nation-states. With robust exports of cocoa,
gold, and timber, Ghana had accumulated foreign exchange reserves of over $500 million, and Ghanaians enjoyed a per capita income of about $500 per year. This made Ghana a middle-income country with per capita income approximately equal to that of South Korea. Ghana's post-independence performance was, however, dismal, and it was from then that a period of significant and continuous fall in real Gross Domestic Product (GDP) per capita started until the introduction of the ERP in April 1983. According to Chibber (1991), one of the sources of the economic problem was the significant government budget deficit and uncontrollable inflation. The latter, when combined with exchange rates fixed for long periods, generated one of the most severe reductions in the real exchange rate ever recorded in Ghana; it was less than 10 percent of the real exchange rate at independence, Chibber observed. As an example, the author stated the currency was revalued by Acheampong immediately following the 1972 coup and was not devalued again until the end of 1978, when the Akuffo government devalued it barely enough to keep the real exchange from falling further the next year. Also, despite the fact that increases in money supply continued to spur a high rate of inflation, the nominal exchange rate remained fixed until April 1983. Chibber also provided two approaches to effecting a change in the real exchange rate: first, through a nominal exchange rate devaluation, and second, through a deflation of the economy. Some economists have argued that the latter approach is preferable because it avoids the costs of high inflation. A somewhat different, but related, critique has come from the Economic Commission for Africa (ECA), which argues that a nominal devaluation is very quickly wiped out by inflation, with no effect on the real exchange rate. This arises from the low supply response and the high share of monetary financing of the budget in many African countries.
At the heart of Ghana’s economic collapse was a decline in real foreign exchange earnings generated by the fall in the real exchange rate. In the case of cocoa, the principal export, the low exchange rate was exacerbated by a bloated state-controlled Cocoa Marketing Board (CMB), which further increased the wedge between the value of cocoa and the price to domestic producers. By the time the ERP was introduced, the real producer price of cocoa had fallen to less than one-eighth of the price in the early 1960s, and the volume of its export had fallen to one-third of the level achieved in the same period.

Ghana’s economy, like that of many small and predominantly agricultural societies, according to Bates (1988), has always been highly dependent on the foreign exchange generated by exports. Foreign exchange, he said, is indispensable to the agricultural sector because virtually every piece of harvesting and transportation machinery, as well as chemical inputs, must be imported. Furthermore, hard currency earnings are equally vital in the construction and maintenance of infrastructure, including road and railroad construction equipment, and rolling stock and the electronic components for telephones, telegraph, and radio communications must all be imported, he observed.

These declines were accompanied by severe deterioration in the quality of the country’s educational and medical services which, by the end of 1982, functioned in name only. For the vast majority of Ghanaians, according to many observers, by this time it had become virtually impossible to obtain education for their children or medical services for their family. Another victim of the economic deterioration was the forest. The extremes of poverty and shortages of imported fertilizers and fuels led to greater reliance on shifting cultivation and use of fuel wood. By the early 1980s, the total forest area in Ghana was one-third of the area at independence. The study
observes that the net result of the economic decline was a collapse of the country’s morale and growing cynicism brought on by the combined effects of a pervasive corruption, an inflation psychology, and an uncontrollable desperation about the prospects of survival.

The import-substitution strategy of the statist regime of Nkrumah in the 1960s and the military and civilian regimes of the 1970s created the unstable situations where the country’s supply of foreign exchange not only was subjected to economic pressures but was diminished over time. According to Ziorkiui (1988), the manufacturing sector in Ghana consisted of industries that had to import practically everything they required: from capital goods and replacement parts to the raw materials used to produce finished products. He observed that the policies employed to promote these industries (protectionism, overvaluation) were biased against exports to a degree that diminished the country’s foreign exchange capacity. This was the opposite of what the Asian Tigers (South Korea, Singapore, Taiwan, and Hong Kong) did to develop their economies. To be able to effectively compete in the world market, they removed many trade barriers (liberalization policies) that included tariffs, administered prices, etc.; made quality products that could compete in the international markets (automobiles, equipment and machinery, computers, electronics); and forged a harmonious relationship between the public and private sectors of their economies. The results that were generated by these policy initiatives are worth emulating by the nascent nation-states in Africa.

When the Ghanaian government proposed the Economic Recovery Program (ERP) in April 1983, it was designed by a few Ghanaian technocrats and was presented to and supported by the IMF and the World Bank as well as many bilateral aid donors. To its credit, Ghana initiated a series of policy reforms intended to
stimulate an economic recovery, and two of the major components were (1) the elimination of government budget deficit, and (2) the restoration of a realistic exchange rate. Ironically, some of these reforms were administratively easy to accomplish, while others were politically difficult tasks to accomplish.

**Administratively Easier Reforms**

**Exchange Rate Policy**

The PNDC government, when it proposed the ERP, was severely constrained by near chaos in the Ghanaian body politic. At the same time, the technocrats working on the reform and the members of PNDC recognized that the incentive to export had to be restored. As a result, they designed a system of export business and import surcharges that radically altered the relative returns between export producers and importers. The premise, according to Leith and Lofchie (1993), was that to persuade recipients of foreign exchange to turn over their proceeds, a bonus had to be offered, and to finance these bonuses, surcharges were used, so as not to revert to the overused “inflation tax” (introduced in the Acheampong regime) in order not to exacerbate the economic situation. The bonus/surcharge scheme was not welcomed by the IMF, for the introduction of multiple exchange rates constitutes one of the cardinal transgressions of the IMF’s code. Furthermore, this system was going to be difficult to administer, they said.

Nevertheless, the Ghanaians insisted that this was an essential first step in the economic recovery program, and the IMF agreed. The system lasted for only months because the administrative difficulty of the bonus/surcharge concept was formidable. In October 1983, the exchange rate was formally devalued to a uniform exchange rate.
rate of C30/US$, and, in addition, the less effective price control system was abolished.

In its place, the government introduced the auction system, which became a saving grace in getting Ghana out of the potentially vicious circle of inflation-devaluation and the insistence of the IMF on uniform and realistic exchange rates. The auction system, inaugurated in September 1986, represented an enormous political improvement over the periodic devaluation system: it removed the burden of acting from the government, thereby de-politicizing the exchange rate policy.

The final innovation in the foreign exchange area came in February 1988 with the introduction of foreign exchange bureaus. The main thrust was a realization that there existed a parallel market, particularly at the retail level, which was fed in part on the supply side by emigrants' remittances sent to relatives at home, and in part on the demand side by those shut out of the formal banking system by virtue of the small size of their transactions. The government then decided to license the parallel foreign exchange market, and these bureaus could then buy and sell just about any convertible currency at rates determined by supply and demand. From published reports in the 1990s, the bureau rates and the auction rates seem to have been converging.

The creation of the foreign bureaus, according to Eade (1997), is one of the signs that the recovery program was on the right track. He also observed that the market-determined foreign exchange rate was becoming a permanent fixture in the Ghanaian economy. Some scholars have also observed that even if a subsequent government attempted to suppress the foreign exchange rate again, there would be considerable political resistance from the constituency, who now benefits from the higher real exchange rate, and this would be difficult to contain. As of 1997, there
existed approximately 475 foreign exchange bureaus, and, by themselves, they constitute a fairly significant political constituency with a lot of influence to keep alive an open foreign exchange market.

**Trade and Tax Reform Policy**

One of the important effects of the exchange rate reforms was to increase the real value of import duty collection, since the higher exchange rate meant a larger local currency value of the imports on which the duty is collected. This increased from less than 1 percent of GDP in 1983, to 2.8 percent in 1986, to 3.6 percent in 1993. A uniform tariff rate for most imports was later established, which greatly simplified the collection process. Furthermore, after the foreign exchange auction system was introduced, the now redundant import licensing system (at least, in economic terms) was abandoned.

Since a key part of the ERP was to decrease the inflationary impact on the government budget deficit, by 1992 the budget deficit had been gradually eliminated and a new credit to the government was no longer fueling inflation. Although the inflation that still remained was still eroding the real value of outstanding government debt, this is not unusual. However, renewed efforts were being made to improve tax collection—the central theme of eliminating government deficit. Part of this involved setting up a special tax police unit in the Central Revenue Department, to check whether individuals (especially the self-employed) paid their taxes. Levi (1988) observed, “While this may have been reminiscent of the earlier people’s revolutionary atmosphere, it did provide rough equity in the administration of taxes, and consequently, has relative wide acceptance.” (Levi, 1988, p. 48)
**Cocoa Price Reform**

Cocoa has been one of the most important sectors to the economic recovery of Ghana. As stated earlier, the less than desirable activities of the Cocoa Marketing Board (CMB) were partly responsible for the initial increase in the real producer price of cocoa, which was also part of the ERP. However, the declining price of cocoa in the world market in the late 1980s made it difficult to maintain an upward movement in real producer price. According to Bates and Krueger (1993), the process of transforming the CMB from an instrument of patronage to an efficient extension and collection service was vigorously pushed by the government in the late 1980s and early 1990s. The CMB, the authors said, had substantial "redeployment" of redundant employees, and the focus of retraining employees changed to one of serving the interests of cocoa farmers. As a result, the producer price at the buying station in 1991 represented a little over 45 percent of the world price, converted at the high real price of foreign exchange. Furthermore, at the early stages when the nominal producer price of cocoa was increased, the effect of the exchange rate reform on transferring resources to the CMB was possible, which also made it easier to accomplish the process of institutional change. The Rawlings administration did realize, however, that until the institutional change is accomplished, cocoa farmers would not receive the full benefits of the reforms and neither would agriculture generate potential benefits for Ghana.
Politically Difficult Reforms

Labor Policy

The impact of any structural adjustment program on the labor market is sensitive and yet complex. Adjustments of employment, wage rates, and earnings are derived from many dimensions of the adjustment program: (a) reallocation of factors across sectors arising from changes in the relative prices of goods; (b) direct reduction of public sector employment as an attempt to control government deficit and excess aggregate demand; (c) reduction of excess demand in general; (d) change in particular labor market policy interventions, such as the minimum wage; and (e) change in relative factor prices, due in part to the foregoing adjustments, but also to changes in the costs of capital and imported inputs.

According to Beaudry and Sowa (1990), since there are many political dimensions involved in labor policy-making, there are many significant redistributions of income that occur as a result of reform programs, which leave losers aggrieved and the winners uncertain about the permanence of their improved situation. The Ghanaian case was no exception to this general phenomenon. Initially, observed Beaudry and Sowa, the labor market was not part of the direct policy focus of the ERP. But in the second phase of the ERP, in the proposal outlined by the government in 1987 entitled “Human Resource Utilization and Labor Mobility,” some reference was made to a change in the labor policy, and its principal focus was on the civil service. The government had observed that the public sector had come under increasing pressure to take additional personnel beyond what it should need to operate efficiently. As a result, the government was determined to put a stop to a common sight of seeing workers reading newspapers and engaging in other
unproductive activities. Thus, overstaffing was seen as making resources unavailable to improving working conditions and allocating salaries and wages for those who work.

The solution involved two elements: (1) redeployment of public sector employees, and (2) elimination of distortions in government salaries and wages. Beaudry and Sowa (1990) observed that, at the outset, the government realized that the re-deployment of public sector employees—out of the public sector—would be a daunting task for any government, let alone a government facing a severe budget constraint. Yet, they said, some 12,000 civil servants were removed from the public sector payroll in 1987, and an equal number in 1988 and 1989, respectively. This was a massive operation dealing with individuals whose lives were changed profoundly as a result of the decision. At the same time, the compensation structure in the civil service was changed to reflect the differential contributions of the higher and lower grades. The government’s view, according Beaudry and Sowa, was that it was better to have a small, well-trained civil service with a consistently high level of productivity.

The other major element of the public sector labor policies concerned the setting of minimum wage, and since this is set in nominal terms, it is eroded by inflation. Prior to proposing the ERP, the minimum wage in Ghana had fallen significantly, reaching 17 percent of the 1970 level in 1983. According to the Ghana Living Standards Survey (GLSS 1989) data, published by the Republic of Ghana Statistical Service, the minimum wage had risen to 36 percent in 1986 and to 48 percent in 1992. It should be pointed out that, despite the populist rhetoric of the PNDC, setting the minimum wage has not been used to redistribute income.
Financial Sector Policies

The second phase of the ERP took aim at the financial sector. It recognized that the successful implementation of ERP II depended on a well-functioning and broadly based financial service, which mobilizes and channels resources into productive activity. Two major elements were involved in the attempt to get the financial sector to perform this function. First, efficiency of the system had to be improved; and second, the financial sector had to be restructured.

According to Grindle and Thomas (1991), the government recognized that the interest rate on savings and deposits should be at least as high as the rate of inflation. As a result, the Bank of Ghana raised the nominal discount rate in 1984, 1986, 1987, and again in 1988. As the inflation rate came down in 1984 and again in 1989, the real discount rate was able to reach the zero level. In retrospect, concluded Grindle and Thomas, the willingness of the public to use the banking system was severely shaken by their experiences prior to the ERP—the massive inflation of the PNDC's predecessors, and the early frontal attack on the symbols of corruption of the old regime, including the de-monetization of C50 notes coupled with the freezing of bank accounts in excess of C50,000. The ratio of central reserve money to GDP remained at less than 8 percent of GDP in 1995, and it is not clear what the public's perception would be to the new marginal incentives of the 1990s and the increase in the use of the formal financial sector.

Meanwhile, the Ghanaian monetary authorities engaged in numerous efforts to restructure the financial sector with the assistance of an International Development Association (IDA)/World Bank credit granted in 1990. This involved (a) amending the regulatory framework and improving the capabilities of bank supervision; and (b)
setting risk exposure limits and capital adequacy ratios, and enforcing audit requirements.

**Divestiture of State Enterprises**

Reforming Ghana’s state-owned enterprises (SOEs) was among the most urgent of the priorities of the ERP, because the enterprises had absorbed vast economic resources and used them in unproductive ways. As is argued in the conclusion, for Ghana to sustain a high rate of economic growth in the 1990s and beyond, these resources have to be freed up, and the burden of future economic growth rests heavily on the country’s ability to transform its wasteful, inefficient, and loss-producing state enterprises into productive and economically viable entities.

Gyimah-Boadi (1990) stated that Ghana had to officially commit itself to divestiture and privatization of the majority of her SOEs, based on the recommendation that thirty-two SOEs had to be divested, and on the agreement the government reached with the IDA (World Bank) to set up a Divestiture Secretariat to handle the sale of these enterprises. In October 1987, thirty-two of these enterprises were slated for divestiture. The agreement also provided a development credit agreement.

As of January 1991, a total of thirty-eight enterprises had been divested, of which twenty-three were liquidations and fifteen privatization of various types—joint ventures, management contracts, leases, sale of shares, and outright sales. In addition, following the reorganization of the Divestiture Secretariat, the government created a systematic database to track the state enterprises in the divestment process.
CHAPTER VI

CONCLUSION: WHAT DOES THE FUTURE HOLD FOR GHANA?

Many discussions on the transition to democracy in Third World countries are prefaced with the idea that the "fragility of democracy" in Asia, Africa, and Latin America, in the years following the end of World War II, has given rise to questionable theories about "the ability of democratic regimes to survive in the harsh social and economic environment of the Third World." Pinkney (1993) observed that only India, Botswana, Mauritius, Gambia, Costa Rica, and a few island states of the Caribbean survived the Cold War era without succumbing to a coup d'etat, civil war, or prolonged period of authoritarian rule. Palmer (1997) said that democracies in the Third World often proved to be less effective than their more authoritarian counterparts in promoting social and economic development. Palmer stated that the end of the Cold War has witnessed a democratic revolution, with thirty-one Third World countries being included in the "Levels of Development Based Upon United Nations Standards" (done in 1992) as being democratic. Palmer's table (see Table 1) contained twelve levels and the following factors: economic growth (GNP), democracy, equitable quality of life, human rights, stability, concern for the environment, and population. Ghana was on Level 12, with a GNP per capita of $450, partly democratic, with high stability and a population of 14,870,000 (as of 1992). "Partly democratic" suggests that the country has embarked on a transition to democratic rule, and this was the situation in Ghana in 1992, as the country was just
### Table 1

Levels of Development Based Upon United Nations Standards

**Level 11. GNP less than $500, with strong progress in the areas of Democracy and Human Rights, mixed results in Stability and Equity**

<table>
<thead>
<tr>
<th>Country</th>
<th>Economic Growth (GNP)</th>
<th>Democracy</th>
<th>Equitable Quality of Life</th>
<th>Human Rights</th>
<th>Stability</th>
<th>Concern for Environment</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pakistan</td>
<td>420 Partly Dem.-3</td>
<td>31</td>
<td>42</td>
<td>Medium</td>
<td>90</td>
<td>112,351,000</td>
<td></td>
</tr>
<tr>
<td>Central Africa</td>
<td>410 Partly Dem.-3</td>
<td>16</td>
<td>57*</td>
<td>High</td>
<td>99</td>
<td>3,008,000</td>
<td></td>
</tr>
<tr>
<td>Benin</td>
<td>410 Democratic-2</td>
<td>11</td>
<td>90</td>
<td>High</td>
<td>75</td>
<td>4,740,000</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>310 Partly Dem.-3</td>
<td>31</td>
<td>54</td>
<td>Low</td>
<td>78</td>
<td>849,515,000</td>
<td></td>
</tr>
<tr>
<td>Zambia</td>
<td>310 Partly Dem.-3</td>
<td>31</td>
<td>57</td>
<td>High</td>
<td>80</td>
<td>8,050,000</td>
<td></td>
</tr>
<tr>
<td>Mali</td>
<td>310 Democratic-2</td>
<td>8</td>
<td>71*</td>
<td>Low</td>
<td>76</td>
<td>8,460,000</td>
<td></td>
</tr>
<tr>
<td>Niger</td>
<td>280 Partly Dem.-3</td>
<td>8</td>
<td>57*</td>
<td>Medium</td>
<td>55</td>
<td>7,666,000</td>
<td></td>
</tr>
<tr>
<td>Madagascar</td>
<td>230 Democratic-2</td>
<td>33</td>
<td>28*</td>
<td>High</td>
<td>86</td>
<td>12,673,000</td>
<td></td>
</tr>
<tr>
<td>Bangladesh</td>
<td>220 Partly Dem.-2</td>
<td>19</td>
<td>59</td>
<td>Low</td>
<td>69</td>
<td>108,275,000</td>
<td></td>
</tr>
<tr>
<td>Nepal</td>
<td>170 Partly Dem.-3</td>
<td>17</td>
<td>69</td>
<td>High</td>
<td>74</td>
<td>18,916,000</td>
<td></td>
</tr>
</tbody>
</table>

**Level 12. GNP less than $500, with low concern for Democracy and Human Rights, mixed results in Stability and Equity**

<table>
<thead>
<tr>
<th>Country</th>
<th>Economic Growth (GNP)</th>
<th>Democracy</th>
<th>Equitable Quality of Life</th>
<th>Human Rights</th>
<th>Stability</th>
<th>Concern for Environment</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tajikistan</td>
<td>490 Non-Dem.-7</td>
<td>66</td>
<td>14*</td>
<td>Medium</td>
<td>NA</td>
<td>5,303,000</td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>470 Non-Dem.-7</td>
<td>57</td>
<td>21</td>
<td>Medium</td>
<td>55</td>
<td>1,133,682,000</td>
<td></td>
</tr>
<tr>
<td>Ghana</td>
<td>450 Partly Dem.-5</td>
<td>31</td>
<td>53</td>
<td>High</td>
<td>70</td>
<td>14,870,000</td>
<td></td>
</tr>
<tr>
<td>Togo</td>
<td>390 Non-Dem.-7</td>
<td>22</td>
<td>48</td>
<td>Low</td>
<td>57</td>
<td>3,638,000</td>
<td></td>
</tr>
<tr>
<td>Nicaragua</td>
<td>340 Partly Dem.-4</td>
<td>50</td>
<td>75</td>
<td>High</td>
<td>62</td>
<td>3,676,000</td>
<td></td>
</tr>
<tr>
<td>Nigeria</td>
<td>320 Non-Dem.-7</td>
<td>25</td>
<td>49</td>
<td>Low</td>
<td>45</td>
<td>96,203,000</td>
<td></td>
</tr>
<tr>
<td>Kenya</td>
<td>310 Partly Dem.-5</td>
<td>37</td>
<td>46</td>
<td>Medium</td>
<td>77</td>
<td>24,160,000</td>
<td></td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>300 Partly Dem.-5</td>
<td>7</td>
<td>57*</td>
<td>High</td>
<td>54</td>
<td>9,016,000</td>
<td></td>
</tr>
<tr>
<td>Rwanda</td>
<td>250 Non-Dem.-6</td>
<td>19</td>
<td>48</td>
<td>Very Low</td>
<td>76</td>
<td>6,921,000</td>
<td></td>
</tr>
<tr>
<td>Lao PDR</td>
<td>250 Non-Dem.-7</td>
<td>25</td>
<td>28*</td>
<td>High</td>
<td>90</td>
<td>4,140,000</td>
<td></td>
</tr>
<tr>
<td>Chad</td>
<td>220 Non-Dem.-6</td>
<td>9</td>
<td>43*</td>
<td>Very Low</td>
<td>54</td>
<td>5,660,000</td>
<td></td>
</tr>
<tr>
<td>Guinea-Bissau</td>
<td>220 Non-Dem.-6</td>
<td>9</td>
<td>43*</td>
<td>High</td>
<td>NA</td>
<td>980,000</td>
<td></td>
</tr>
<tr>
<td>Malawi</td>
<td>210 Non-Dem.-6</td>
<td>17</td>
<td>33</td>
<td>High</td>
<td>69</td>
<td>8,507,000</td>
<td></td>
</tr>
<tr>
<td>Burundi</td>
<td>210 Non-Dem.-7</td>
<td>17</td>
<td>14*</td>
<td>Low</td>
<td>87</td>
<td>5,492,000</td>
<td></td>
</tr>
<tr>
<td>Bhutan</td>
<td>180 Non-Dem.-7</td>
<td>15</td>
<td>14*</td>
<td>High</td>
<td>97</td>
<td>1,433,000</td>
<td></td>
</tr>
<tr>
<td>Uganda</td>
<td>170 Non-Dem.-6</td>
<td>19</td>
<td>46</td>
<td>Low</td>
<td>100</td>
<td>16,330,000</td>
<td></td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>160 Non-Dem.-7</td>
<td>7</td>
<td>67</td>
<td>Medium</td>
<td>94</td>
<td>4,136,000</td>
<td></td>
</tr>
<tr>
<td>Ethiopia</td>
<td>110 Non-Dem.-7</td>
<td>17</td>
<td>43*</td>
<td>Very Low</td>
<td>68</td>
<td>51,180,000</td>
<td></td>
</tr>
<tr>
<td>Tanzania</td>
<td>110 Non-Dem.-6</td>
<td>27</td>
<td>41</td>
<td>High</td>
<td>81</td>
<td>24,470,000</td>
<td></td>
</tr>
<tr>
<td>Mozambique</td>
<td>60 Non-Dem.-6</td>
<td>15</td>
<td>53</td>
<td>Medium</td>
<td>88</td>
<td>15,707,000</td>
<td></td>
</tr>
<tr>
<td>Somalia</td>
<td>0 Non-Dem.-7</td>
<td>9</td>
<td>14*</td>
<td>Very Low</td>
<td>NA</td>
<td>7,805,000</td>
<td></td>
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<tr>
<td>Syrian A.R.</td>
<td>0 Non-Dem.-7</td>
<td>69</td>
<td>30</td>
<td>High</td>
<td>79</td>
<td>12,116,000</td>
<td></td>
</tr>
<tr>
<td>Myanmar</td>
<td>0 Non-Dem.-7</td>
<td>39</td>
<td>17</td>
<td>Low</td>
<td>78</td>
<td>41,825,000</td>
<td></td>
</tr>
<tr>
<td>Yemen Rep.</td>
<td>0 Partly Dem.-4</td>
<td>23</td>
<td>49</td>
<td>Medium</td>
<td>55</td>
<td>11,282,000</td>
<td></td>
</tr>
<tr>
<td>Sudan</td>
<td>0 Non-Dem.-7</td>
<td>15</td>
<td>18</td>
<td>Very Low</td>
<td>86</td>
<td>25,118,000</td>
<td></td>
</tr>
</tbody>
</table>

concluding its elections for local, city, and state governments to the presidential level in almost thirteen years.

On democracy, some scholars have focused their attention on the procedural requirements, while others focus on the goals of democracy. Inkeles (1991) observed that few topics have been more widely debated than the nature of democracy, and yet few concepts have proven so difficult to define. Dahl (1971), in his definition of democracy, observed that it must meet seven conditions for it to be considered practicable. To Dahl, democracies (1) must hold regular elections at scheduled intervals; (2) must conduct elections in a fair and impartial manner; (3) must make election open to all citizens, regardless of gender, creed, race, level of education, or prior condition of servitude; (4) must permit free and open discussion of issues; (5) must ensure that voters have a meaningful choice of candidates; (6) must ensure that winners take office; and (7) must assure that winners do rule once in office. Dahl indicated that the seventh condition was the most troubling for elected officials in Third World countries. Oftentimes, he observed, they take office only to find their authority and legitimacy being undermined by the military.

From many accounts, Dahl's list of conditions does provide a checklist for determining whether a country is democratic or moving toward or away from democracy. In 1992, Ghana was "partly democratic" because it had already satisfied most of the conditions stated in Dahl's seven conditions, but was about to hold elections. Conversely, Nigeria was categorized as "non-democratic" because not only were many of the conditions unsatisfied, but the military regime was vacillating as to whether to hold elections. As it turned out, when the elections were finally held, they were annulled by the military.
The future of democracy in Third World countries will depend on a broad range of factors, such as the attitudes of the elite and the masses, the group structure of society, the political culture as entrenched by past experiences and beliefs, the pattern of political parties, and the broader environmental context in which politics occur. These factors will play a large part in sustaining democratic development and political stability. In the broader environmental context, according to many scholars (O'Donnell and Schimitter 1986; Friedheim 1993; Geddes 1991), this will include the culture and economy of a society as well as the amount of international pressures and decision-making process that individual countries are required to undertake. In the case of Ghana, the IMF and the World Bank were involved in her reform programs (ERP I and II) in the quest for economic survival and growth, and in the political reforms of the 1980s and 1990s, including the evolving institutional reforms. The reforms have provided phrases such as "participate in the decision-making process" in Rawlings' maiden speech after the 31 December revolution, and the "people participatory democracy" became the modus operandi of the PNDC in the process of reshaping the Ghanaian body politic and society at large.

As regards the connection between individuals and democracy, there are two parts to this perspective. On one side are the elite and masses and how they interact, and on the other is an examination of how the elite dominate the policy-making process in society, democratic or otherwise. This is a phenomenon that is prevalent in society, especially in developing countries. One of the reasons is that elite values are the best guarantee for a society's democratic survival. Lasswell and Lerner (1952) observed democracy as an inspiring ideal but also inquired if a "democratic"
government is really possible. They reasoned that *elitist perspective* requires that “government is always by the few, whether in the name of the few, the one, or the many” (p. 7). The basic idea of *elitism* is that all societies, including democracies, divide themselves into the few that have power and the many who do not. The study reasons then that if the elite is committed to democracy, the masses will generally follow in that direction, because of their belief that their representatives will always look out for their best interest—ideal representative democracy. The success of democracy in India has a lot to do with Nehru’s commitment to democratic principles, the rule of law, and his unwillingness to use his charisma to transform India into a “guided democracy.”

In Rawlings’ case, many Ghanaians believe that he is a man of strong emotions driven by a passion for moral justice, intellect, and integrity. On the intellectual front, many Ghanaians maintain that he is the first Ghanaian leader of charisma and stature since Nkrumah in his early years.

Kofi Awoonor (1990) states that Rawlings’ achievements, in the political and economic realm, have been made possible only because of his tenacity, honesty, clear objectives, and sense of direction. Many Ghanaians believe that Rawlings, more than any other individual in the country’s history, has led them through the difficult years of economic recovery, and, above all, has given them back their national pride and self-respect. Without strength of character and unwavering determination on the part of Rawlings, Awoonor concluded, Ghana would not have been able to survive the Economic Recovery Programs I and II, because Rawlings saw part of his role as the head of state to be that of a “watch dog” for the people, and in that role, it was unusual for him to speak his mind and intervene in issues whenever he saw what he considered to an injustice, corruption, or incompetence.
Political and Economic Obstacles to the Reform of the PNDC

Political Obstacles

Paul Nugent (1995), in the fourth chapter of his book, discusses the "Culture of Silence and the Cultivation of Protest, 1987–1991." During this period, he observed, Ghana was going through a transformation in the PNDC era, because the ERP has been put into effect for about three years, and the opposition to the reform programs was gaining its voice. The two main forms of opposition, he stated, came from the unions, represented by the Trade Union Congress (TUC), and the student body, represented by the National Union of Ghanaian Students (NUGS).

As the opposition to the PNDC programs gathered momentum, the government had to explain to the citizenry that the structural adjustment program (or ERP II) was the logical continuation of the economic reforms that had been vigorously implemented since 1984. Whereas ERP I had been largely concerned with "getting the prices right," its successor was intended to address the structural impediments to economic growth. This process, according to Nugent (1995), implied a fundamental shake-up of institutions and practices that had been reproduced without question since independence—until the revolution. In simple terms, the policies were divided into three categories: (1) those that were simply a continuation of ERP I, (2) those that sought to deepen existing policy initiatives, and (3) those that represented fresh initiatives.

The major opposition of the TUC centered on the liquidation or sale of thirty-two enterprises in 1988, with forty-six additional ones to be privatized in the following two years, despite being previously set aside for continued public ownership, because of their strategic or essential character. The PNDC government
had a difficult time rationalizing its approach to the divestiture process, especially in terms of the ideological factors and the balancing of political interests, in addition to the technical considerations and administrative problems it had to contend with to conclude the process.

On the ideological factors, many developing countries, including Egypt, India, Mexico, and Turkey (EIMT countries according to John Waterbury [1993]), as well as Nigeria and Ghana, have a lingering attachment to state enterprises because of the temptation of political actors to use them as economic assets for attracting political clienteles and building coalitions. Although the PNDC found its principal claim to political legitimacy on the elimination of corruption on the part of government officials, its revulsion against the blatant rent-seeking behavior of the previous regimes was paralleled by an almost equal mistrust of the profit-seeking behavior that it suspected would be an inevitable accompaniment of a capitalist economic system. Ironically, many Ghanaians appeared not to see any significant distinction between the rent-seeking behavior of corrupt government officials and the profit-seeking of the entrepreneurial class.

As for NUGS, its opposition to PNDC in the mid-1980s focused on the education reforms that were designed to place more financial responsibility on the students. It argued that the reduction of subsidies on education would mean that higher education would become the exclusive preserve of the rich. The PNDC countered that the expansion of higher educational provision (in the form of a greater number of technical colleges and new universities) would not only help expand public access but that the existing system was highly elitist and excluded a major segment of the population. The reforms, the government insisted, were taking care of that
problem in education, and the protest at the introduction of student loans should be dismissed as nothing more than special pleading by a privileged minority.

**Economic Obstacles**

For all the talk of Ghana being the IMF and the World Bank showcase in West Africa, there were many large economic obstacles to overcome in the 1980s and 1990s. According to Ishrat Husain, chief economist of the World Bank's Africa Region, when Ghana undertook its adjustment programs in the period of mid-1980s through 1991, the program addressed such distortions as an overvalued exchange rate, high current account and fiscal deficits, low factor mobility, restrictions on domestic and foreign trade, distorted pricing for tradables, and inefficient public services. In response to the question of how far Ghana and the countries of Burundi, Cote d'Ivoire, Kenya, Nigeria, Senegal, and Tanzania have come in their reforming policies, Husain countered with questions as to whether the growth has been adequate, whether the supply response has been strong, whether investment-to-GDP ratios have shown improvement, what role has been played by external financial flows, and how adjustments have hurt the poor. The result of the study confirms the main World Bank Report on Adjustment in Africa: Reforms, Results, and the Road Ahead, which found that those countries that have pursued adjustment programs in a consistent and sustained manner, such as Ghana and Tanzania, have shown positive results in terms of a resurgence in growth. It is equally clear, Husain concluded, that many structural reforms have yet to take place; consequently, economic recovery is still fragile and economic growth rates are still insufficient to make a dent in poverty alleviation.
Economic and Political Processes Needed to Sustain Ghana in the Future

Economic Sustainability

On the question of economic sustainability, the government and its economic reformers have taken most, but not all, of the steps required to ensure sustained growth. To their credit, according to Leith and Lofchie (1993), they have stabilized the macro-economy by balancing the budget, allowed the exchange rate to seek its own level, significantly increased the producer price of cocoa, opened the economy to international trade, obtained substantial financing for imports to permit industry to purchase badly needed materials and spare parts, and begun to reform the financial and public sectors of the economy. Yet, the authors observed, after an initially promising start, the economic recovery is generating a growth barely in excess of population growth.

The present study poses the question: “Why are the reform programs not generating substantial on-going economic growth as previously expected?” To answer this question, the study investigated (a) the ambivalence towards the new economic system, (b) the relationship between economic and institutional reform, (c) the need for regional cooperation through ECOWAS, and (d) the U.S.-Ghana trade relations and the Africa Trade Bill.

Ambivalence Toward the New Economic System

At the outset of the Economic Recovery Program (ERP), Ghana’s policy reforms were partially motivated by a non-economic consideration—the determination of the PNDC to root out corruption and rent-seeking behavior from the political system. But as time went on and the results of the reforms became
visible, the government became ambivalent about its underlying attitude toward the idea of a market-based economy. This ambivalence has engendered a certain amount of insecurity and reluctance among would-be entrepreneurs in Ghana. Back in 1983, the PNDC was committed to a non-corrupt economic system, and the structural adjustment reforms were adopted as indirect mechanisms to achieve the same objective: to reward the deserving with continued economic growth and to deprive the undeserving of their ill-gotten wealth. Aside from the non-existence of an ideological commitment to the "free market" ideal in Ghana, a market-oriented system was seen in 1983 as the best way of establishing a non-corrupt economic system. The experience over the intervening years, however, suggests that a market-oriented solution will continue to be viewed as the most effective protection against corruption. It can then be reasoned that for as long as the government remains ambivalent towards private entrepreneurs (and unable to make a distinction between rewards to entrepreneurs and rents sought by political actors), there will continue to be a phenomenon where the business community, both domestic and foreign, will be hesitant to commit substantial long-term investment.

The other issue is that the business community is still uncertain how long the reforms will be able to sustain itself, especially in the context of the global economic condition. Between 1991 and 1997, the donors made it clear that they expect Ghana to be weaned from the substantial assistance it has been receiving. There is also a consensus in the business community that by 1999, when Ghana gets ready for another election cycle, the extraordinary assistance it received as part of the ERP will have dried up because Rawlings will be expected to exit the political arena and the new leaders are virtually untested. So, the future of further economic prodding looks bleak at this time.
Relationship Between Economic and Institutional Reform

The slow emergence of institutions necessary to support the effective functioning of the economy is constraining the sustainability of economic growth in Ghana. Conventional wisdom dictates that a smoothly functioning economy requires financial institutions to perform the critical functions of financial intermediation. Yet, the reform of the financial sector in Ghana has been slow to emerge, because it involves far more than simply changing a set of price signals. Realistically, it involves establishing a set of behavioral norms for lenders (banks and other financial institutions); for borrowers (businesses, both private and state-owned); and for the regulators, which are known and widely accepted. Also, since many of the norms required in a modern financial sector are foreign to the Ghanaian milieu, it takes both time and concerted effort to reform the institutions in a way that would make them contribute positively to the efficient functioning of the economy.

Another element of the institutional reform is the slow eradication of negative externalities, a characteristic feature of "underdevelopment," in which a significant amount of economic "friction" exists between economic agents. Ghana is not an exception to this phenomenon. In its extreme form, an individual firm, for example, cannot rely on other firms to supply the necessary inputs or to purchase its output at a predictable price in a timely manner. Other examples involve individual firms paying for telephones that don't work, contracting with suppliers that don't deliver on time, and sometimes even delivering to purchasers who haven't accumulated sufficient cash to pay for the product as promised. Governments, on the other hand, often form part of the picture by failing to provide essential inputs, such as passable roads, reliable police services, community health and emergency services, etc. (things we refer to as
public good), and, in extreme cases, by harassing businesses. The existence of these negative externalities are typically exacerbated by an exchange control regime, which, both directly and indirectly, makes inter-firm and firm-government relations unreliable. It is no wonder then that, even where individual firms are efficient, the system conspires to deprive the economy of the fruits of efficiency.

Overall, one of the major benefits of the SAP was the eradication of some of the negative externalities. The availability of inputs and spare parts has yielded an immediate gain for the economy, but the old habits of doing business in a shortage economy do die hard, and the “take-it-or-leave-it” mentality of suppliers, without any legal recourse for the client, still exists. The study believes that until the inter-firm and firm-government relationships become unencumbered by these frictions, the full potential of the economy cannot be achieved.

Regional Cooperation Through ECOWAS

The signing of the Treaty of Lagos, which established the Economic Community of West African States (ECOWAS) in May 1975, marked a major breakthrough in the long-standing efforts to overcome the anglophone and francophone divide in West Africa. According to Asante (1985), the francophone states—often encouraged by France, which feared any threat to its influence in the region—had long been wary of the potential influence of Nigeria, by far the dominant economic power in the area. Nigeria alone accounts for over 70 percent of West Africa’s GDP. Anglophone states, on the other hand, harbored long-standing suspicions of what were perceived to be neo-colonial links between the francophone states and France in particular. The unprecedented cooperation of francophone and anglophone states in negotiating the Lome Convention with the European Economic
Community (EEC), Asante observed, facilitated the reconciliation between the
groups that led to the Treaty of Lagos.

ECOWAS has as its principal goal the construction of a common market over
a fifteen-year period between its sixteen member states (Benin, Byrkina Faso, Cape
Verde, Cote d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissua, Liberia, Mali,
Mauritania, Niger, Nigeria, Senegal, Sierra Leone, and Togo). A gradual
liberalization of internal trade was to be followed by a harmonization of member
states' external tariff and of agricultural, industrial, investment, and monetary
policies. Obstacles to the free movement of capital, services, and people within
ECOWAS were to be abolished. The Community, said Asante, has failed to meet its
deadlines for progress toward the construction of a common market. It has hovered
on the verge of disintegration for several years, and various factors have contributed
to its failure to achieve its timetable for scheduled trade liberalization. Asante stated
that the internal workings of ECOWAS have been hampered by unfavorable
developments in the international economy, and that, with all member states
encountering severe balance-of-payments problems, there has been a temptation to
conserve on their foreign exchange by not making the required contributions to the
fund and the secretariat's expenses. The decline in oil prices in the mid-1980s, for
example, severely weakened the economy of Nigeria, whose strength had earlier been
expected to sustain the community through difficult times. Also, conflict between key
officials and continuing suspicions between francophone and anglophone states have
impeded progress. (Cote d'Ivoire and Senegal in the mid-1990s delayed the
implementation of the treaty by insisting the Zaire be invited to participate, a
transparent attempt to reduce the influence of Nigeria within the Community.) In
response to a question during a British Broadcasting Corporation (BBC) interview in
1991, Rawlings was quoted as saying that ECOWAS, like any other group effort, depends on the collective will and determination of its members to decide whether it will produce concrete beneficial results or be merely a talking shop for good intentions.

The reluctance of ECOWAS members to apply the provisions of the treaty was a clear sign that many have doubts regarding the long-term viability of the Community. Meanwhile, choosing the “Protocol on the Free Movement of Peoples” as one of the first projects to be implemented created unnecessary difficulties for the Community in the late 1980s. Also, given the latent hostility between ethnic communities and the discontent over “foreigners” occupying scarce jobs, it was inevitable that migration within West Africa would generate considerable hostility. As has often been the case throughout history, aliens always become easy targets for governments attempting to divert attention from their domestic difficulties. A case in point is when, in 1983, Nigeria expelled over 1 million Ghanaians, just as the PNDC government was settling down to the business of governing. This action by Nigeria, among others, soured relations within the Community. Finally, politics in West Africa were so volatile in the 1980s (both Nigeria and Ghana, for instance, closed their borders for long periods of time, Burkina Faso and Mali went to war with each other, and Liberia and Sierra Leone were both engulfed in civil wars) that the prospects of any meaningful cooperative plan, however well designed, appeared dim. But as we approach a new millennium, the future of ECOWAS is again being seriously discussed by its member states, especially in view of the 1998 twelve-day, six-nation visit of U.S. President Bill Clinton to Africa.
U.S.-Ghana Relations and the Africa Trade Bill

The United States is Ghana’s third largest supplier of goods and services, behind Nigeria and the United Kingdom. According to the USAID 1998 Report on Ghana, the U.S. share of Ghana’s total imports has grown over the last 10 years from 9 percent to more than 13 percent, representing an increase of $53 million in 1987 to $178 million in 1997. Imports from Ghana have risen from $90 million during the same period to $196 million. Ghana, at the present time, is the fifth largest importer of U.S. goods and services in sub-Saharan Africa. The report also states that in the first nine months of 1996, U.S. exports to Ghana increased nearly 60 percent; the surge was led by mining and drilling equipment, wheat, and rice. Leading sectors for U.S. exports and investment included mining industry machinery, food processing and packaging equipment, construction and earth-moving equipment, automobiles, light trucks and vans, computers and telecommunication equipment, and hotel and restaurant equipment. Agricultural exports included wheat, rice, frozen beef, chicken, and turkey. The leading U.S. imports from Ghana are diamonds, cocoa, seafood, and timber.

In February 1996, the late Ron Brown became the first U.S. Secretary of Commerce to visit Ghana when he led a five-nation Commercial Development mission to Africa. According to Robinson (1997), the U.S. government and the financial sector recognizes that there exist a growing economic potential and political stability in Ghana, and efforts are being made to encourage foreign direct investments (FDIs) in the country. As a result of Ron Brown’s visit, she continued, the Commerce Department opened a commercial office in Accra in 1996, making Ghana one of only five countries in sub-Saharan Africa in which the department’s personnel
are stationed. Palmer (1997) alluded to the dependency theorists' argument when he said that the level of a state's development is largely a function of its position in a capitalist international system dominated by the U.S. and its allies, and that foreign trade and aid have gone to those nations that serve the strategic interests of the First World. These nations, he observed, have often received favored access to Western markets so essential to their economic growth.

Ron Brown, observed Robinson, believed strongly that trade was a vehicle to breaking down barriers which, in African, have been deliberately overlooked by successive policymakers in America. He was attempting to correct some of this trade imbalance when he died in April 1996. In 1998, Ghana was the first country visited by President Bill Clinton during his twelve-day, six-nation African tour. On the political front, the U.S. has reiterated a strong commitment to continued democratic development and economic growth in Ghana and also hopes that other Africa states will replicate the political and economic reforms in Ghana. Overall, the U.S. espouses a long-standing commitment in encouraging the positive effects of democracy, a free-market system, a workable constitutional arrangement, and the hope that African leaders will promote economic growth and political reforms. In this vein, the American model of democracy and free market system are being prescribed as the most practicable way for political and economic development.

Unfortunately, the American foreign and trade policies have not always reflected this sentiment. When President Clinton was in Africa, the elements contained in the U.S./Africa Trade Bill were seriously debated. In a question and answer session on Black Entertainment Television (BET) political forum, Rep. Jesse Jackson, Jr. (D-IL) observed that the Africa Trade Bill represented the neo-colonialist disposition of American policymakers. The trade bill, he said, was crafted
in a way that the political development of African states would be determined according to the dictates of America, stressing the "stick and carrot" phenomenon of "if you want to receive something from us you have to give up something." Part of the bill, for example, required that African nations should sever their trade links with the regimes in Cuba, Libya, Iran, Iraq, etc., before America could guarantee any cooperation with Africa. The bill also gave American companies unfair advantage over their African counterparts by requiring the latter to remove subsidies without any safeguards.

President Nelson Mandela of South Africa expressed his dismay at the language of the trade bill in a reception he had for President Bill Clinton ("U.S.-Africa Trade Relations and the Africa Trade Bill," 1998). He stated that America does not have the authority to dictate to South Africa with which countries it can have bilateral relations, and he emphasized that loyalty to one's friends and the giving of political support, such as that received by the African National Congress (ANC) during its political struggles against apartheid, is a given in international relations, stressing that Africans always appreciate their friends in their time of need. The study observes that if America is sincere about political and economic development in Africa, it should make a conscious connection between trade and politics, while cognizant that global cooperation and integration do have serious consequences for the economic, political, and social well-being for many regions of the world.

**Political Sustainability**

The structural adjustment program (SAP) in Ghana, in some respects, was a product of a negative coalition, because it was not the sort of policy that elicits an enthusiastic burst of popular support. On the other hand, Ghana's nascent political
parties, if they had been allowed to operate openly on a national basis, would have campaigned for support on the basis of their criticism of structural adjustment and their determination to modify the program in many essential respects. Despite the fact that SAP has produced a period of sustained growth, after a generation of economic decline and atrophy, outside government circles, it has been associated with austerity, sacrifice, and hardship, which thereby engenders political control.

The study poses the question: "Is there a political condition that supports structural adjustment, and, if so, how can it be possibly empowered to sustain the process of economic reform?" The politics of structural adjustment is closely linked to the politics of the "budget reduction package," a popular catch phrase used by politicians in America to validate their arguments and authenticate their political agenda. Although budget deficit reduction, used successfully by the Clinton administration in 1993 and later on, is a form of structural adjustment, no one really it, but most people often realize that it is necessary and beneficial to the economy in the long run. In Ghana, there was a slight twist to the structural adjustment drama. Even when people were critical of the program because of the hardship and austerity associated with it, privately they acknowledged that there was no alternative if Ghana was to develop.

The critical question regarding Ghana's future is: "Will political leaders who may come to power after Rawlings mount a vociferous criticism of structural adjustment and feel obligated to re-create the old statist coalition of the Nkrumah era?" If this happens, could this then mean that to continue structural adjustment and reap the benefits it portends, Ghana must entrench participatory democracy? No one knows, but according to published accounts, the PNDC in 1992, despite its reluctance, moved ahead and restored democratic politics at the national level. The
reticence of the powers-that-be in Ghana has not been proved yet, but may be put to a test in 1999 in the upcoming elections to choose new leaders who will lead the country into the next millennium. So far, the restoration of full democracy has not generated elements of the old statist coalition (civil servants, manufacturers, trade unionists, etc.) to use it to seek to recapture political control. The idea of democracy, if anything, has been a legitimizing norm to rebuild an anti-reformist coalition.

Additionally, it is rather unprecedented that in the 1990s there is an important theme about democracy and development in Ghana. Hitherto, national politics in Ghana, as in so much of independent Africa, has really meant the politics of the capital city. The major political actors in Ghana are usually located within a very small perimeter around the Accra city limits, particularly if one includes the adjacent port city of Tema. Bates (1988) stated that rural communities—agricultural interests—have rarely been effective in translating their economic importance into political influence. As a result of the absence of political opposition from the rural areas, he observed, there exists a formidable problem of collective action by export-oriented farmers. The study observes that if the cocoa and food farmers in the regions of Western, Brong-Ahafo, Volta, and Ashanti (the largest regions of Ghana’s ten regions) are not accorded their share of Ghana’s income and wealth, the restoration of democratic politics at the level would mean very little if these regions are not empowered to ensure continued food to feed the growing population.

The study also observes that it is not surprising the PNDC government, in its early years, chose to emphasize district assemblies (DAs) as the chosen institutional vehicle for the restoration of participant politics in Ghana. The district assembly concept is quintessentially rural in character; it empowers precisely those people that were marginalized from the time of independence until the early 1980s. But the DA
system represents more than an attempt to coalesce participant politics with the
economic participants, and since it also operates in northern Ghana, it was a
deliberate attempt to integrate this brand of politics to the social groups that have
been Ghana's most deprived segment of the population. It is not surprising then that
some members of the country's urban intelligentsia do label and discredit the district
assembly system as cynical and manipulative.

To his credit, Rawlings has managed to undertake a transition from military to
authoritarianism to multi-party democracy mainly by decentralizing the functions of
government. Shillington (1992) observed that, although there was no formal
constitution to guide the country back in 1981, nonetheless, the PNDC regime
managed to put in place institutional structures in every neighborhood and workplace
(the Workers' Defense Committees [WDCs], and the People's Defense Committees
[PDCs]), established district and regional assemblies, and eventually constituted the
 Constituent Assembly, which paved the way for spontaneous participatory
democracy. He observed that the process of political change, begun in 1982, was a
deliberate strategy to rebuild the political structures from the bottom up, and at each
stage, the citizens were involved, usually in a referendum, to debate the issues and
decide their future in the name of nation-building. Also, the way the Constitution was
drafted, the formation of political parties, and the eventual holding of the elections of
1992, were results of good planning to guarantee the restoration of the political
process.

Rawlings, in an interview with the BBC in 1994 said:

the long process to reinvigorating the national consciousness was necessary
because the economic, political, and moral disintegration of the 1970s had
created anger, apathy, and cynicism among Ghanaians. We had to rebuild our
people's confidence in their own ability to influence events and engage in
decision-making.
In response to how he can reconcile his socialist roots with strict adherence to the IMF/World Bank stipulations under SAP, he responded:

I have never had much time for rigid ideologies. If a passionate concern for social justice makes me a socialist, fine. But that concern is not incompatible with sound economic management, with a belief in individual enterprise or with political common sense.

The SAP was not imposed on us. We went to the IMF in the early 1980s with our own analysis of what was wrong with our economy, and with what we saw as the obvious and necessary measures to be taken. Since then we have worked in partnership. There has been some give and take on both sides. There have been some differences of approach and principle, but it has worked. We had to redefine ourselves, acknowledging our own traditions and cultures, adapting Western concepts to be relevant to our circumstances, reforming education and other institutions to respond to our needs. At the same time, we are a part of the international community and we have to function within the context of the global economy and the present spheres of power and influence. (BBC Interview of J. J. Rawlings, August 24, 1994)

Ayee (1994) stated that the involvement of the World Bank in Ghana’s decentralization program was not surprising, because in its 1988 Development Report, it linked the financing of local governments to “fiscal decentralization,” thereby asserting that “decentralizing both spending and revenue authorities can improve the allocation of resources in the public sector by linking costs and benefits of local public services more closely.” Ayee then argued that the World Bank’s assertion about fiscal decentralization in Ghana not only buttresses the fact that the decentralization program of the PNDC was tied to the IMF/World Bank-supported ERP/SAP, but also the fact that “financial responsibility is at the core of the concept, which requires that subsidies to the local governments and regions must be reduced based on World Bank stipulations, and the decentralization should not inefficiently expand public employment.”

In conclusion, Ghana has embarked on the journey of emerging as a politically aware and economically prudent nation-state, but there is still a lot to be done based
on the country’s history. Ghana needs to adhere to the development challenge and political process in place. Herbst (1993) observed that a decade of adherence to a program of economic reforms prescribed by the IMF and the World Bank has made Ghana a test case for structural adjustment in Africa, revealing both the potential for African economic renewal and the highly problematic nature of the reform process, particularly its political dimensions.

The study observes that the results of the political and economic reforms, which have led to growth and stability in Ghana, should not be taken for granted, at least as far as the future is concerned. The government in Ghana has a lot to do with the business community and should also forge a meaningful relationship between the public and private sectors. The fiscal and monetary policies proposed by the government have to reflect a commitment to change. The public sector deficit, which has been consistently reduced over the last decade, should continue, as well as the cutting of transfers to state enterprises through the reduction of unfunded liabilities, such as end-of-service benefits, subsidies on water, electricity, and transport. Most importantly, there should be improvement in revenue mobilization and tax collection in order to sustain the growth.

Many policymakers in the West have criticized African governments, including Ghana, for taking on too many tasks in the process of governing, with the result that these governments suffer from a shortage of capabilities. In particular, they have been accused of engaging in unnecessarily burdensome functions, such as retailing, hotel management, agricultural production, etc., that might easily have been performed by the private sector. As a result, the consensus of experts on Africa’s political economy is that the state in most African countries is overextended, and many of these experts do conclude that the extension of state activities is thus
accompanied by inefficiencies, which result from the desire of governments wanting to create additional political patronage.

The study believes that in order to maintain the political development and economic growth of the past decade in Ghana, the government needs to focus on the political essentials underlying effective growth strategies, which should take precedence over the emphasis on redistributive issues and neo-imperialism stressed by the critics of structural adjustment. The government should also be cognizant of the striking difference between Ghana and the East Asian countries of South Korea, Singapore, Taiwan, and Hong Kong (the Asian Tigers) and their success stories, which lies partly in the interaction and cordial relationship between the public and private sectors; the liberalization of trade and barriers—removal of tariffs, administered prices, etc.; and the allowance of the existence of real exchange rate. Ideally, the government should have clear roles (which should be complimentary) in its dealings with the private sector. In fact, that relationship should transcend any suspicions on either side (public or private), and government technocrats should not harbor any acrimony against their "money-grabbing" counterparts in the private sector. In the U.S., as well as other Western economies, there does exist a tandem and often cooperative relationship between the bureaucrats and the private (financial) sector of the economy. According to Wilson (1989), bureaucrats like to think that their policy initiatives would be adopted and executed in the manner they are presented without modification. Wilson also observed that not only is the ego of these bureaucrats on the line, because of their professionalism and confidence in the work they do, but political exigencies do dictate that these proposals could be changed. He then argued that guarding their "turf" is often more important than remuneration and other perks to public sector operatives and managers.
Most East Asian countries have been fiscally prudent, and not only is government spending huge, but it is geared toward promoting, not competing with, the private sector. Ghana should learn from this fiscal policy and encourage cooperation of all the sectors in the interest of growth. The net result of the aforementioned cooperation in the Asian economies is the attainment of vigorous revenue mobilization, with the public sector being the net saver in the 1960s and 1970s, rarely crowding the private sector. The study also believes that the regulatory environment for private sector activity needs to be enhanced and favorable in Ghana. This can be achieved through a low corporate tax structure and import duty exemptions on capital equipment, as this would lead to trade and payment arrangements that are liberalized and have potential for success.

With all these political and economic reforms, the study believes, Ghana should be able to sustain a democracy that works, an economy that continues to grow, a political system that guarantees individual freedom, and, above all, a society where the people not only enjoy the quality of life but also reap the benefits of development in a global political environment into the next millennium.
Appendix A

Ghana’s Regimes, 1957–1994
Ghana's Regimes, 1957–1994

<table>
<thead>
<tr>
<th>Regime</th>
<th>Dates in Power</th>
<th>Type of Government</th>
</tr>
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<tbody>
<tr>
<td>CPP</td>
<td>1951-1966</td>
<td>civilian, multi-party; then one-party</td>
</tr>
<tr>
<td>NLC</td>
<td>1966-1969</td>
<td>military, police</td>
</tr>
<tr>
<td>PP</td>
<td>1969-1972</td>
<td>civilian, multi-party</td>
</tr>
<tr>
<td>SMC I</td>
<td>1975-1978</td>
<td>military</td>
</tr>
<tr>
<td>SMC II</td>
<td>1978-1979</td>
<td>military</td>
</tr>
<tr>
<td>AFRC</td>
<td>1979</td>
<td>military</td>
</tr>
<tr>
<td>PNP</td>
<td>1979-1981</td>
<td>civilian, multi-party</td>
</tr>
<tr>
<td>PNDC</td>
<td>1981-1993</td>
<td>military</td>
</tr>
<tr>
<td>NDC</td>
<td>1993 to date</td>
<td>civilian, multi-party</td>
</tr>
</tbody>
</table>

Appendix B

Political and Economic Events in Ghana in Chronological Order Since World War II (1945–1996)
<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>February 1951</td>
<td>Convention People’s Party (CPP) wins first national election under Kwame Nkrumah.</td>
</tr>
<tr>
<td>6 March 1957</td>
<td>Ghana achieves independence</td>
</tr>
<tr>
<td>24 February 1966</td>
<td>Nkrumah is overthrown in a military coup; National Liberation Council (NLC) installed.</td>
</tr>
<tr>
<td>29 August 1969</td>
<td>Progress Party (PP) elected to power under Kofi Busia.</td>
</tr>
<tr>
<td>13 January 1972</td>
<td>Busia overthrown in a military coup; National Redemption Council (NRC) established under Lt.-Col. Acheampong.</td>
</tr>
<tr>
<td>October 1975</td>
<td>NRC superseded by Supreme Military Council (SMC).</td>
</tr>
<tr>
<td>March 1978</td>
<td>Union Government referendum</td>
</tr>
<tr>
<td>4 June 1979</td>
<td>Mutiny brings Rawlings to power as head of Armed Forces Revolutionary Council; senior military officers are executed, including Acheampong and Akuffo.</td>
</tr>
<tr>
<td>24 September 1979</td>
<td>Rawlings hands power to elected civilian government of People’s National Party (PNP) led by Dr. Hilla Limann.</td>
</tr>
<tr>
<td>31 December 1981</td>
<td>Military coup brings Rawlings back to power at the head of Provisional National Defense Council (PNDC); the revolution is launched.</td>
</tr>
<tr>
<td>30 June 1982</td>
<td>Murder of three high court judges and a retired army officer.</td>
</tr>
<tr>
<td>28/29 October 1982</td>
<td>Failed plot by left-wingers on PNDC.</td>
</tr>
<tr>
<td>23 November 1982</td>
<td>Attempted coup, followed by purges and resignations.</td>
</tr>
<tr>
<td>January 1983</td>
<td>Start of mass influx of 1.2 million returnees expelled from Nigeria, in midst of severe drought conditions.</td>
</tr>
<tr>
<td>April 1983</td>
<td>First budget proposed as part of Economic Recovery Program (ERP), followed by protests.</td>
</tr>
<tr>
<td>19 June 1983</td>
<td>Nearly successful coup attempt.</td>
</tr>
<tr>
<td>April 1984</td>
<td>Start of industrial dispute at Pioneer Food Cannery.</td>
</tr>
<tr>
<td>April 1986</td>
<td>Disturbances over the abolition of leave allowances.</td>
</tr>
<tr>
<td>June 1989</td>
<td>Ban placed on Jehovah’s Witnesses and Mormons.</td>
</tr>
<tr>
<td>September 1989</td>
<td>Arrest of Major Quarshigah and others for alleged coup plot.</td>
</tr>
<tr>
<td>July-November 1990</td>
<td>Regional seminars held to make plans for transition to democracy.</td>
</tr>
<tr>
<td>4 August 1990</td>
<td>Launch of Movement for Freedom and Justice (MFJ).</td>
</tr>
</tbody>
</table>

August 1991  Consultative Assembly sits to decide on a new Constitution.

3 November 1993  Presidential elections won by Jerry Rawlings.

29 December 1992  Parliamentary elections boycotted by the opposition, New Patriotic Party (NPP), and therefore won by Rawlings’ National Democratic Congress (NDC).

7 January 1993  Inauguration of the Fourth Republic

June 1993  Rawlings announces that stabilizing policies yielding good results: Broad budget balance, strong export growth, reasonable external Position, and substantial structural reforms, including some privatization and closures of loss-making publicly-owned companies.

December 1993  World Bank Report on results of adjustments in Africa states that: Despite a sharp fall in cocoa prices in the world market, Ghana has More than doubled its exports in the seven years prior, with gold Exports replacing cocoa as the number one export. Ghana was also Able to neutralize the terms of trade losses and made modest gains.

March 1994  Rawlings announces a positive per capita Gross Domestic Product (GDP) growth for Ghana as a result of the adjustment programs.


June 1995  Government announces plans for the improvement of infrastructure, such as electricity, roads, highways, and improving the water levels at the Akosombo Dam. This will encourage more investment in the Ghanaian economy, the authorities reasoned.

September 1995  Government announces plans to privatize Ghana Telecoms in order to attract private sector finance.


March 1996  Government announces investments in Ghana by AT&T, Hunt Oil, Chevron, StarKist, Coca Cola, Luster Products, Mobil, America-On-Line (Africa), and Teleberebie Corp.(gold mining), showing growing American investor confidence in Ghana.

November 1996  Rawlings elected to a second and final term as president.
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