ECONOMIC CRISIS AND POLICY ADJUSTMENT: THE POLITICS OF FOREIGN ECONOMIC POLICY MAKING IN GHANA, 1982-1990.

by

James Busumtwi-Sam

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Economic Crisis and Policy Adjustment: The Politics of Foreign Economic Policy Making in Ghana, 1892-1990.

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Ph.D. 1993.

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ABSTRACT

This study examines key aspects of the trade and exchange policies pursued by the government of Ghana, the Provisional National Defence Council (PNDC), between 1982 and 1990. During this period, although there was no change of government, considerable changes were made in the country's trade and exchange policies. As part an adjustment programme supported by the International Monetary Fund (IMF) and the World Bank, the changes involved a shift from an administered trade and exchange regime that relied on allocative and distributive mechanisms controlled by the state, to a liberal regime that relied to a greater extent on market mechanisms.

The research problem addresses the question: what is the role of learning in policy choice and implementation? In the case of Ghana, this problem translates into providing an explanation of why the government changed its policies, and of the factors that contributed to the sustainability of the reform programme.

The objectives are first, to achieve a greater understanding

of Ghana's experience with economic policy reform. Second, to explore the policy lessons on the politics of economic policy reform that emerge from the case of Ghana, one of the few countries in sub-Saharan Africa to sustain an adjustment programme with such rigour and for such a length of time. To add greater weight to the findings, one chapter of the study examines the adjustment efforts of Zambia, as a case of unsustained adjustment.

The central thesis is that the foreign economic policy changes undertaken by the government of Ghana, as part of an IMF and World Bank supported adjustment programme, were primarily a result of a learning process that occurred among key members of the PNDC. This learning process involved a recognition of the structural and historical roots of the country's economic crisis, the recognition of policy failure, and the need to attract external finance. The findings suggest that learning, which shapes both a government's commitment to economic policy reform and its statecraft in managing political costs and risks, is necessary for the sustainability of major economic policy reform.

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February 1993.

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INTRODUCTION

THE RESEARCH PROBLEM AND OBJECTIVES

The Research Problem. This study examines key aspects of the foreign economic policies that were pursued by the government of Ghana between 1982 and 1990 as part of its overall development strategy. During this period, although there was no change of government or of key policy makers, considerable changes were made in the country's development strategy. These changes were in turn reflected in redirections in Ghana's external economic relations, particularly, in its trade and exchange policies.

The research problem addresses a largely unexplored area in the field of political economy, especially with respect to developing countries, namely, under what conditions does an existing government recognize that its current course is seriously mistaken, inadequate, or inapplicable? And under what conditions can such a government effectively manage the political costs and risks usually associated with policy reform? In short, what is the role of learning in policy choice and implementation?

Among the more interesting problems in the field today is the question of change. Understanding the conditions for change poses one of the most difficult problems for scholars and policy makers alike. Current theories may be adequate at explaining patterns of continuity in policy but they are weak when it comes to explaining changes. There has been a tendency in the literature to conclude that regime change is the only way to achieve major shifts in a country's foreign policy.[1] As the case of Ghana reveals however, there are instances where major redirections in policy are made by an existing regime.

Essential to the understanding of policy change is the analysis of how the interests and goals of policy makers are defined and shaped. Changes in policy occur as interests are redefined over time. Existing theoretical approaches, however, are largely choice-theoretic and thus treat interests as given. These approaches tend to obscure rather than illuminate sources of change.[2] My research intends to shed light on the problem of identifying sources of change in states' policy choices.

In the case of Ghana, the research problem centres on providing an explanation of **why** the government changed its foreign economic policies, **how** it was able to change policy direction with relative ease, and implement the new policies with considerable rigour. Briefly, the highlights of the case are as follows.

On December 31, 1981, a democratically elected civilian government was overthrown in a military coup. The new government, the Provisional National Defence Committee (PNDC) undertook to reshape Ghana's development path. This was done through the announcement of a \`revolutionary' reform programme that was designed to restructure the domestic economy and redefine the country's external economic relations in order to achieve greater self-reliance. By the end of 1982, it was evident that changes in policy were needed. The country's economy had plunged into an acute crisis stemming partly from the government's policies but mainly from factors beyond its control.

In October, 1982, Ghanaian officials entered formal negotiations with the International Monetary Fund (IMF) for a Standby Arrangement, and in November, 1983, the PNDC convened a donor's conference of the leading industrialized states in Paris to help bail the country out of its economic plight. This laid the foundation for the adoption of economic policies of Stabilization and Structural Adjustment as prescribed by the IMF and the World Bank.[3] Between 1983 and 1990, the PNDC was relatively successful in implementing the harsh economic reforms which brought modest, but important, gains to the economy.[4]

How and why did the PNDC, a self-proclaimed `revolutionary' regime that came to power highly critical of the established order in the international political economy, make a 180-degree turn in its policies and become the vehicle for the most rigorously enforced IMF and World Bank supported adjustment programme in Africa?

It could be argued that the policy changes undertaken by the PNDC represent just another case of an underdeveloped country that faced an economic crisis and had no choice but to acquiesce to external pressure. And indeed, there is evidence which suggests that external factors were instrumental in influencing the PNDC. Such an interpretation would be consistent with external bargaining or systemic theories (e.g., dependency theories) which emphasize the absence of strong domestic constraints and allow for international influences to fully determine policy outcomes. This study argues, however, that external factors, although important, and possibly necessary, are not sufficient to explain the changes in, and the evolution of, Ghana's foreign economic policies during the time period under consideration. There is considerable evidence that points to important domestic sources of change.

For instance, in 1982, before the PNDC reached an agreement with the IMF, there was an intense ideological struggle within the governing coalition over policy direction, and efforts by the PNDC to shift its domestic basis of support. This resulted in the demise of the radical faction and paved the way for the subsequent agreement with the Fund. In addition, as far as the implementation of policy was concerned, there were a number of elements that distinguished the PNDC's adjustment programme from previous programmes in Ghana, as well as from other adjustment programmes in Africa.

One of these elements was the much greater rigour in the domestic management of the programme, both in terms of its technical coordination and its political consistency. As one observer has noted, the PNDC demonstrated a remarkable ability to discount the political limits usually associated with IMF programmes, a factor that represented a departure from other adjustment programmes in Africa.[5] A second element was the high level of technical sophistication and political commitment among state managers and bureaucrats, evident in the relative coherence of the adjustment programme.[6] These and other factors, which cannot be explained solely by reference to external influences, suggest that important sources of change in Ghana's foreign economic policies lay at the state-society nexus.

<u>Central Thesis</u>. The central thesis of this study is that the foreign economic policy changes undertaken by the PNDC, as part of the implementation of a Stabilization and Structural Adjustment programme supported by the IMF and the World Bank, were more a product of genuinely endogenous decisions than simply a reluctant yielding to international pressures. The fact that a dependent country like Ghana adopts policies that are in accord with dominant external interests, does not necessarily imply that the policies were imposed unwillingly. Often overlooked in the explanation of the foreign economic policy choices of developing countries like Ghana, is the influence of important domestic sources of change, and particularly, the role of learning.

A more fruitful explanation of the changes in, and the evolution of, Ghana's foreign economic policies can thus be obtained from an examination of how the consequences of the economic crisis of 1982 produced a redefinition of the policy problem and a reevaluation of goals and interests on the part of the governing coalition. This redefinition could be indicative of learning at the level of individual policy makers and at the institutional level.

The learning process that occurred in Ghana involved a recognition on the part of key players within the PNDC of the structural and historically-rooted sources of the country's economic problems, the limitations of existing policy, and the need to attract external finance; and was manifest in the high degree of commitment on the part of the PNDC to the adjustment process and in aspects of its statecraft in managing the political costs and risks of economic policy reform.

Objectives and Justification. The objectives of the study are to achieve a greater understanding of the Ghanaian experience at policy reform and thereby, to obtain theoretical insights into the policy making processes in developing countries.

An area of study that has been neglected, particularly with respect to Structural Adjustment programmes in sub-Saharan Africa, is the political economy of policy choice and implementation. This may be due to the assumption often made that African countries do not have any endogenous choices to make in respect of adjustment.[7] This assumption, however, irrespective of its intuitive merits, unduly circumscribes the study of adjustment.

Structural Adjustment programmes, afterall, vary with respect to scope, content and the speed with which they are implemented. Why, for example, do some governments undertake adjustment with reluctance while others are more receptive? Why are some governments better able to sustain adjustment than others? The record over the past decade or so, suggests that adjustment programmes in developing countries often impose substantial political challenges on the regimes undertaking them. In sub-Saharan Africa, there are many places like Zambia and the Ivory Coast, where riots and strikes have forced governments to either terminate their agreements with the Fund, or substantially modify the reform packages.

The political and social unrest engendered by the costs of adjustment bring into question the political viablity of the IMF and World Bank policy prescriptions and packages. The established orthodoxy in the approaches of these institutions to economic adjustment has not been sensitive to the political requirements of economic prescriptions, particularly in the relationship among state, society and the economy in the areas of production, consumption, investment and distribution.

Many African states, plagued by administrative decay, political instabilty, and a precarious basis of legitimation, appear to lack the political and institutional capacities to manage the costs of adjustment. Since Structural Adjustment lending has become the cornerstone of all the major international donors on whom African countries depend for assistance, how these countries manage the political challenges to economic policy reform needs to be investigated.[8]

Unfortunately, systematic studies on the political determinants of adjustment are rare. The issues of political costs and risks, which are linked to the speed and timing of adjustment, as well as the scope and content, have not been adequately investigated.[9] This study, by focusing explicitly on the capacities of local actors, public and private, to make choices and on the conditions shaping those choices, attempts to obtain insights into the political economy of policy choice and implementation.

In this context, the experience of Ghana is of special interest in that arguably, it is one of the few places in sub-Saharan Africa where a government has been able to implement an IMF and World Bank supported adjustment programme with such rigour and for such a length of time. Valuable lessons on the issue of the political sustainability of major economic reforms can thus be obtained from Ghana's experience. Indeed, the PNDC received wide acclaim in international financial circles for its economic policies and some observers have even suggested that the experience of Ghana be used as an example for the rest of sub-Saharan Africa.[10]

It is not at all clear, however, that the experience of Ghana can be replicated in other countries of Africa. Most existing studies of Ghana's economic policies have been done by economists who have focused on the technical aspects of Stabilization and Structural Adjustment, or have examined the impact of the policies on various aspects of the Ghanaian economy.[11] No comprehensive study has yet been done on the political issues and particularly, on the nature of the policy making environment that, so far, has been conducive to adjustment.[12] Perceptive observers, who have noted the insularity of the PNDC military government, have questioned whether any other form of government could have achieved the wide-ranging reforms that were brought in so quickly and so persistently by the PNDC.[13] This is a valid question. This study attempts to provide a window on this intriguing issue.

Treating Ghana as the empirical case should not obscure the broader objective of this study. This objective is to explore the policy implications on the issue of political sustainability that promise to evolve out of a theoretically informed empirical study.

Method. The methodology employed in pursuit of the objectives is a structured and focused `within-case' comparison. This entails a sequenced and detailed examination and comparison of the foreign economic policies implemented by the government of Ghana over a specified period (1982-1990). Although the approach is historical and interpretive rather than formal and deductive, it is not purely descriptive. Each step in the postulated sequence attempts to specify the cause-effect linkages between independent and dependent variables and makes use of generalizations derived from theory.[14]

The major advantage to such an approach is that it allows for a more detailed and controlled comparison. In the case of Ghana, a sequenced examination of the actions and behaviour of the same policy makers under different conditions over time, will permit a more accurate identification of the conditions under which policy changes occurred and of the factors that contributed to the sustainability of the reform programme. With a structured and focused comparison, therefore, a greater degree of control over variables and constants can be achieved than will be possible with a multiple-case method.

Although Ghana is the primary focus, one chapter of the study compares the PNDC's adjustment efforts with that of Zambia as a case of unsustained adjustment. Ghana and Zambia are comparable in respect of factors such as size (e.g., population), national product and level of economic development. Yet the adjustment experiences of these two countries were markedly different.

Zambia and Ghana began their reform programmes at approximately the same time (1981 and 1983 respectively) and with comparable external support, but the Zambian programme immediately ran into problems. In contrast to Ghana, Zambia's experience with adjustment reveals a chequered record of cancellations by the IMF between 1981 and 1986, culminating in the formal termination of the adjustment effort by the Zambian government in 1987. By including a case like that of Zambia, and by comparing this with the experience of the PNDC, greater variation is obtained in the dependent variable. This will add greater weight and validity to any causal imputations that may derive from the central propositions.[15]

This is a theoretically-informed empirical study that requires a careful examination of the historical record. Primary sources of data include personal interviews with key policy makers or those in positions to influence policy, and government documents. Other sources of data include the various country studies, surveys and statistical compilations prepared by the IMF, the World Bank and the various UN agencies, the annual economic reports prepared by Ghanaian banks and the multinational banks operating in Ghana, U.S. Government Congressional Committee Reports and staff studies, and newspapers and journals.

Chapter Outline. The study is organized in three parts which are subdivided into chapters. Part one, comprising chapters one and two, details the approach and method of the study. Chapter one presents a comprehensive literature survey and chapter two specifies the analytic framework employed in the study.

Part two, comprising chapters three, four and five, form the core of the study. It is in these chapters that the central propositions are `tested' against the empirical evidence. Chapter three provides the historical context for the analysis of the PNDC's economic policies by examining in detail the history of economic policy making in Ghana from 1957 to 1981, and the evolution of political and economic constraints.

Chapter four deals with the political economy of policy choice in Ghana from 1982-1990, with the objective of identifying the conditions underlying policy change. Beginning with the base-line of the key trade and exchange policy decisions made by the PNDC prior to the major redirection in 1983, the chapter examines in detail the changes in these policies that occurred with the commencement of the government's Economic Recovery Programme (ERP) in April 1983 and the subsequent changes made with the commencement of the ERP II between February 1987 and December 1990.

Chapter five examines the political economy of policy implementation in Ghana. The focus is on how the PNDC managed political costs and risks to enhance the sustainability of its economic reforms between 1983 and 1990.

Part three, comprising chapters six and seven, is the concluding section. Chapter six assesses the validity of the central propositions by comparing the experiences of the PNDC with that of Zambia. Chapter seven, the concluding chapter, draws lessons on the politics of economic policy reform in sub-Saharan Africa.

NOTES

1. See for example, Bruce E. Moon, "Consensus or Compliance? Foreign Policy Change and External Dependence". International Organization 39, 2 (Spring, 1985) pp. 297-329.

2. For a fuller discussion, see Ernst-Otto Czempiel and James N. Rosenau, (eds) Global Changes and Theoretical Challenges. (Lexington, Mass: Lexington Books, 1989).

3. Structural Adjustment or "Adjustment with Growth" is the latest in a series of policy conditions and packages establishd by the IMF and the World Bank for dealing with the economic and debt problems of developing countries. A Structural Adjustment programme includes reforms of policies and institutions to improve resource allocation, improve efficiency and expand growth potential. The essence of structural adjustment, from the perspective of the Fund and the Bank, therefore, is to improve growth potential.

In contrast, a Stabilization programme focuses primarily on demand-management with the objective of reducing balance of payments and fiscal deficits.

4. See John Loxley, Ghana: Economic Crisis and the Long Road to Recovery. (Ottawa: North-South Institute, 1988). Also, Eboe Hutchful, "From Revolution to Monetarism in Ghana" in Campbell and Loxley (eds) Structural Adjustment in Africa. (London: Macmillan, 1989). pp.92-131.

5. See Eboe Hutchful, 1989, "From Revolution to Monetarism in Ghana". Op.Cit, p.113.

6. See John Loxely, 1988, Ghana: Economic Crisis and the Long Road to Recovery. Op.Cit, p.49. Also, Donald I. Ray, Ghana: Politics Economics and Society. (London: Francis Pinter, 1986). Chapter 8.

7. This assumption may be due in part to the stringency of the conditionality attached to IMF and World Bank adjustment loans and facilities. Since it goes to the heart of sovereignty and undermines autonomy in policy making, many critics question the legitimacy and efficacy of the `policy conditions' set out in Fund-Bank stabilization and adjustment packages. See for example, John Spraos, IMF Conditionality: Ineffectual, Inefficient, and Mistargetted.(Princeton, N.J: Essays in International Finance, 1986). Valeriana Kallab and Richard Fienberg (eds), Adjustment Crisis in the Third World.(London: Transaction Books, 1984). Tony Killick (ed) The IMF and Stabilization. (London: Heineman, 1984). G.K. Helleiner,Africa and the IMF. (Washington, D.C: IMF,1986). Bade Onimode (ed) The IMF, The World Bank and the African Debt. (2 vols) (London: Zed Press, 1989). John Williamson (ed) IMF

Conditionality. (Cambridge: Institute for Int'Economics/ MIT Press, 1983).

8. World Bank, _Report on Adjustment Lending_, August 1988. According to World Bank figures, by 1988, 30 countries in Africa were pursuing Structural Adjustment programmes supported by the IMF and the Bank.

9. See Joan M. Nelson (ed) _Economic Crisis and Policy Choice: The Politics of Adjustment in the Third World_. (Princeton: PUP, 1990).

10. See _Africa Report_, v.31, #2, March-April, 1985, p.33. Also, _Financial Times_ (London) May 20, 1986. And, _Africa Confidential_, March 17, 1989 (v.30, #6) p.7

11. A brief sample of these studies include: John Loxley, _Ghana: Economic Crisis and the long Road to Recovery_. (Ottawa: North-South Institute, 1988). R.H. Green, _Stabilization and Adjustment Programmes and Policies: Ghana_, (Helsinki: World Institute for Development Economics Research, 1986). IMF, _Ghana: Recent Economic Developments_. (Washington, D.C: IMF, 1986). Kodwo Ewusi, _Structural Adjustment and Stabilization Policies In Developing Countries: A Case Study of Ghana's Experience_ (Tema, Ghana: Ghana Publishig Corp: 1987); and Stephen Younger, "Ghana: Economic Recovery Programme, A Case Study of Stabilization and Structural Adjustment in Sub-Saharan Africa", World Bank-EDI Development Policy Case Series #1, _Successful Development in Africa_ (Wash, D.C.: World Bank, 1989). Other studies include, Ernesto May, "Exchange Controls and Parallel Market Economies in Sub-Saharan Africa-Focus on Ghana". World Bank Staff Working Papers, #711, (Washington, D.C, 1985). World Bank, _Ghana: Policies and Issues of Structural Adjustment_,(Washington, D.C, March, 1987). World Bank, _Ghana: Towards Structural Adjustment_. (2 vols) (Washington, D.C, 1985).

12. The few existing studies that do examine the political issues are usually part of an edited volume, and thus do not treat the subject exhaustively. For example, see Thomas Callaghy, "Lost Between The State and the Market: The Politics of Adjustment in Ghana, Zambia and Nigeria" in Joan M. Nelson (ed) _Economic Crisis and Policy Choice_ (Princeton: PUP, 1990); Eboe Hutchful, "From Revolution to Monetarism: The Economics and Politics of the Adjustment Programme in Ghana", _op.cit_; and the articles by Naomi Chazan, Kwame Ninsin, Richard Jeffries, Matthew Martin, and Jon Kraus in Donald Rothchild (ed) _Ghana: The Political Economy of Recovery_, (Boulder: Westview, 1991).

13. See Eboe Hutchful, "From Revolution to Monetarism in Ghana", _op.cit_, pp. 122-131. Also, John Loxley, 1988, _op.cit_, p.47.

14. See Alexander George, "Case Studies and Theory Development." (Mimeo) Paper Presented at the Annual Symposium on Information Processing, Carnegie-Mellon, 1982.

15. See James D. Fearon, "Counterfactuals and Hypothesis Testing In Political Science." World Politics, 43, 2 (January, 1991). pp. 169-195. Fearon notes that legitimate causal imputation cannot be made on the basis of negative degrees of freedom. (Degrees of freedom = the No. of cases minus the No. of independent variables minus one). Thus the analyst wishing to assess a causal hypothesis or to assess the relative weights of different causes has no choice but to add or create more cases.

PART ONE

THE APPROACH AND METHOD

CHAPTER ONE

LITERATURE REVIEW

The way in which the research problem has been posed raises several issues and makes this study relevant to a range of disciplines. This study could, for example, be a study in international relations, comparative politics, or development studies, with each bringing its own particular perspective and emphasis to the research problem. Although my choice, or bias, is to situate this study within the field of international relations, it is necessary to be sensitive and receptive to the insights that might be offered by other fields.

Before elaborating on the methodology to be employed to achieve the research objectives, a review of the literature is provided. There are four main bodies of literature, drawn from a variety of fields, that provide insights into the research problem. These are: a) literature on the political economy of Ghana and on the state in contemporary Africa; b) literature on the politics of adjustment; c) literature on government learning; and d) literature on international political economy and foreign economic policy.

The purpose of the literature survey is two-fold: first, to specify how and where this study fits into, adds to, or challenges existing literature; second, to provide the basis for developing the explanatory framework by highlighting the strengths and weaknesses of alternative approaches to the study of foreign economic policy.

Literature on the Political Economy of Ghana and the State in Contemporary Africa.

The most striking feature of Ghana's recent history has been the rapid decline in its economy and the progressive decline in political and administrative structures. In 1957, when it achieved political independence, Ghana was one of the richest countries in Africa, with a per capita GNP that was comparable to South Korea at that time.

When Kwame Nkrumah, the first president, took office, he inherited a small national debt of about US$ 20 million and about $200 million in reserves. 30 years later, in 1987, the country had a total external debt of over $3 billion. Between 1965 and 1987, national income per capita fell by an average of 1.6% per annum and real incomes declined by 35% during the same period.[1]

Politically, Ghana has fared no better. Its political history has been characterized by instability. By 1982, the country had experienced five successful military coup d'etats and had experimented with virtually every type of democratic and non-democratic government (three civilian governments and five military).[2] This cycle of instability has taken its toll on the capacity of the state to extract, regulate and effectively use resources, or to garner societal support. By the time of the PNDC `revolution' in December, 1981, the institutions of Africa's first post-colonial state were on the verge of collapse.

The reason for Ghana's economic decline is the subject of debate in the literature. And this debate has centred on the wider issue of the role of the state in development. In the interests of brevity and clarity, the discussion will begin with an examination of the broad themes raised in the debate over the role of the state in development and then assess how these themes have been applied to the analysis of Ghana's political and economic decline.

The recognition of the phenomenon of the weak state in Africa is relatively recent. The early literature on the state in Africa tended to accept the existence of reasonably competent state institutions as given. If one word can characterize the general tone of the literature of the late 1950s and 1960s, it is optimism. These approaches were essentially Weberian or functionalist perspectives which de-emphasized the role of ideology and placed explanatory emphasis on technocratic and functionalist solutions. Much of this literature coincided with the emergence of `modernization' approaches in development studies and were given expression in the works of David Apter (1955) and Edward Shills (1966) for example, who were generally hopeful, if not idealistic, about the future development of African states in the post-colonial era.[3]

The implicit assumption in these approaches was one of progression towards national integration and `nation building' along the lines of the Western capitalist state. And it is this assumption, in the face of historical reality, that has led to this body of literature being described as idealistic.

This early optimism has, needless to say, given way to pessimism. And this is reflected in the voluminous literature on the declining capabilities of the state in Africa. Three broad themes or explanations can be identified.[4]

First, there are the society-centred perspectives that focus on how social groups in Africa define their interests and mobilize resources in pursuit of their goals. Within this broad category two perspectives are discernible. First, there are those approaches that tend to view the state as an arena of social conflict, and suggest that the major reason for the declining capabilities of the state is the excessive permeation or appropriation of the state by society (Price, 1984; Chazan, 1983, 1988; Chabal, 1986).[5]

A second society-centred perspective, expressed in the work of Goran Hyden (1983), focuses on the relationship between peasant societies and the state. Hyden argues that the modern African state has been attached somewhat incongruously to the foundations of an agrarian economy. Peasant societies in Africa have a great deal of autonomy from the state and participation in the formal economy does not rest on structural linkages but on primordial attachments. For Hyden, the social bases of political power in much of Africa rest in what he terms `the economy of affection' (patronage, ethnic ties, clientelism, etc) and policy makers have been captured by the demands of this economy of affection. These demands place constraints on the building of effective state institutions and represent the antithesis of the kind of economic organization that is necessary for development.[6]

A second theme identitifiable in the literature comes from the `leadership' approaches which see the absence of well developed and articulated classes as a prevalent feature of the African political economy. Richard Sandbrook (1985) for example, argues that in Africa, the overall weakness of classes in society and of the class that dominates the state has generated a form of personal rule, neopatrimonialism, that is authoritarian and destructive. Neopatrimonialism, as a degenerate form of adaptation to the deterioration in state-society relations in Africa, introduces and exacerbates the irrationalities in economic life. The result is a weak but oppressive state, controlled by leadership that is preoccupied with the maintenance of its power, and hence unable to promote development of any kind.[7]

The third broad theme identifiable in the literature comes from radical analyses. Within this category, there are two currents. First, those approaches informed by some version of dependency theory, and second, those informed by neo-Marxism. The major difference between these perspectives is in their view of how progressive change might be accomplished.

The radical approaches informed by dependency theory purport to identify a specific `class logic' behind the actions of the state (Leys, 1975, 1976; Ake, 1981; Shivji, 1976; Von Freyhold, 1977). According to this thesis, the African peripheral state, within a world capitalist economy, performs principally as an instrument of international capital. Domestically, this perspective sees the emergence in Africa of a fully-formed class centred around the state, a `bureaucratic bourgeoisie', with an interest that is distinct from and antagonistic to the mass of the population. This bureaucratic bourgoisie, with no independent economic base, uses the state as the medium of accumulation and obstructs any major initiatives to promote development, as this might weaken its power base in the state.[8]

The second current identifiable in the radical literature is expressed in the work of John Saul (1974, 1979). This perspective differs from the dependency approaches by focusing on the struggles that occur within the state apparatus, among members of an unformed class, or a `class-in-formation', over the direction of development policy. This perspective introduces and emphasizes the subjective element of ideology or `consciousness' and suggest that there are different historical alternatives that might be chosen by members of this class-in-formation. However, it is the absence of a hegemonic class that is capable of ensuring the reproduction of capitalism in Africa that explains why the state is so ineffective.[9]

The perspectives on the state and development in Africa outlined above, for different reasons, suggest the same conclusion: that those exercising power in Africa are incapable of, and/or unwilling to, mount major initiatives to promote development. This apparent agreement, however, should not mask what essentially amount to competing, if not contradictory, images of the state and its relationship to the social structure.[10]

There is thus some inconsistency regarding the African state and its relationship to the social structure. African states, and indeed the very same state, can be seen as relatively autonomous or lacking in autonomy, weak or strong, and it is unclear what the precise relationship is between these variables and the outcome, i.e., the capacities of the state for effective socio-economic intervention.[11] The significance of this observation is explained below.

The themes outlined above are represented in varying degrees in the literature on Ghana's political economy. Naomi Chazan (1983, 1988) and Robert Price (1984) for example, adopt what is essentially a society-centred perspective. Chazan for instance, argues that Ghanaian regimes, ever since Nkrumah's Convention Peoples' Party (CPP) government, have been plagued by "inadequate mechanisms for policy formulation, decreasing capacity, dwindling legitimacy and an image of domination and repression".[12] This has arisen because public institutions in Ghana have "been penetrated by every conceivable interest", and successive governments have exhibited "an inability to withstand partisan pressures from below".[13] This pattern, which began under Nkrumah's First Republic (1960-66), was intensified under successive regimes, and reached its peak during the Acheampong regime (1972-78) which was in many respects, the archetype of neopatrimonialism, and embodied all of the degenerate and destructive aspects that Sandbrook identifies.[14]

Governments in Ghana, according to Chazan, have had to resort to increasingly authoritarian measures as the only means of implementing public policy. The result is that the Ghanaian state is "simultaneously detached from society yet too permeable to partisan pressures from below" and the outcome has been the virtual paralysis of the state.[15]

A different view of the relationship between state and society in Ghana is provided by Eboe Hutchful (1989). Hutchful adopts an approach that accords a greater degree of autonomy to the state and focuses on the constraints on policy making produced by the duality of the political and administrative structures within the Ghanaian state.[16]

Hutchful argues that state interest in Ghana has been conceived and elaborated to a large degree autonomously from, and in conflict with, not only the interests of labour and the peasantry, but also of those of capital, domestic and external. This position is contrary to the views expressed by Chazan and Price, and represents a departure from Hutchful's earlier views which identified a class logic behind the actions of the state.[17]

The source of this autonomy, Hutchful argues, stems from the fact that the state has become the object of "endless and inconclusive contestations among rival political and class forces" with the only permanence provided by the state structure itself.[18] The absence of a structural or ideological hegemony, however, has rendered the Ghanaian state incapable of playing a rational role, especially with respect to the accumulation function.[19]

Of the two alternative explanations for Ghana's political and economic decline outlined above, Hutchful's analysis is more persuasive. Chazan's view of the state as simultaneously detached yet permeated by society, is confusing. Chazan emphasizes the coping mechanisms adopted by social groups in Ghana and utilizes the concept of `disengagement', which supposedly offers both an explanation of state decay and the variety of activities carried out by social groups as ordered responses to the state (e.g., smuggling, the growth in the parallel and illegal economies, etc).[20] The problem is that these phenomena could just as easily be a response to the growth of state control as to its decline, and as Ninsin (1988) notes, disengagement might actually strengthen the state rather than weaken it.[21]

The experience of the PNDC seems to support this view. If the high degree of societal disengagement that existed in Ghana in the early years of the PNDC, had indeed paralysed the state, how was the PNDC able to change policy direction so rapidly, and to implement the policies with such persistence? As most observers of the PNDC's Economic Recovery Programme have noted, given the problems associated with the political sustainability of adjustment (discussed below), what is significant is not so much the initial policy changes in 1983-84, (many governments are forced into such changes in desperate economic circumstances) but the government's consistent adherence to the programme.[22]

In a curious way, therefore, and somewhat contrary to the views expressed by Chazan, under certain conditions, high levels of societal disengagement may actually be conducive to the kind of economic reforms contained in a programme of structural adjustment. The alienation and withdrawal of social forces that result from prolonged periods of economic decline, may reduce the ability of social groups to organize and mobilize political resources, and thus enhance regime autonomy.

Thus, as far as explaining events in Ghana is concerned, it is unsatisfactory to reduce the state to a mere arena where social groups compete because those directing the political, coercive and administrative organs of the state are themselves actors however incoherent and disorganised they may be. It is even less satisfactory to attempt to reduce the state to the actions of a single `personal ruler', since patrimonialism and the network of clientelistic attachments that are the basis of personal rule are themselves products of, and are sustained by, relations of power and access to resources. And it is these relations, not the status of the participants, that should be the focus of explanation.

As far as class analysis is concerned, while analytic use of the social category `class' is useful, it is incorrect to impute a specific `class logic' behind the activities of the Ghanaian state. If class as a social category is defined as encompassing those who have similar economic motivation because they have similar economic opportunities even if class consciousness and solidarity do not exist, then it is difficult to see the state in Ghana as unproblematically subordinated to the interests of either an exploiting imperialism, or a domestic dominant class.

Indeed an examination of the historical record which is undertaken in chapter three, reveals that as far as Ghana is concerned, it does not make sense to talk of the state as having served the interests of any one class, let alone a bureaucratic bourgeoisie -a class that owes its position to the occupation of high government office. Unless of course, one is inclined to ignore the historical evidence and argue that state decay and debilitation, acute fiscal and external deficits, drastic declines in the output of all sectors, and widespread social and economic impoverishment, are in the interest of this bureaucratic bourgeoisie!

The major problems, then, with existing theories of the state in Africa are first, the definitional ambiguity surrounding the concept of the state. The word "state" is used variously to refer to the government, the bureaucracy, the coercive apparatus, or even to the type of government (i.e., democratic or non-democratic).[23] This definitional imprecision creates a situation in which different analysts are not exactly talking of the same thing, although similar terminology is used, and this to some extent accounts for the inconsistencies in the theoretical images of the state portrayed in the literature.

The second major problem is the unidimensional view of the state either in terms of its relationship to the social structure or in terms of its internal structures and relations. The state, however, ought to be conceptualized both in terms of its internal structures and relations as well its relationship to the social structure. Exclusive focus on one aspect or the other, provides an incomplete picture and confounds the issues of state autonomy, strength and capacity. State autonomy and the state as an arena of social conflict for example, are not necessarily opposed. Indeed, state autonomy can be a product of the state becoming an arena of social conflict. Thus it is only by adopting a conception of the state which recognizes its duality as both autonomous and an arena of conflict, that events in Ghana can be understood.

Literature on the Politics of Adjustment.

`Stabilization' and `Structural Adjustment' are the names given by the IMF and the World Bank to the packages of conditions they attach to a loan. There is some ambiguity concerning the meanings and the relationship between Stabilization and Structural Adjustment and thus some clarification is in order. Adjustment: Stabilization and Structural Adjustment are both aspects of a package of policies designed to achieve changes in internal and external balances and/or in the structure of incentives and institutions known as `adjustment'. Where the focus is on the former it is Stabilization and where the focus is on the latter, it is Structural Adjustment.

Stabilization: This includes policies designed to achieve reductions in the deficit on the current account of the balance of payments, the fiscal deficit, and in the rate of inflation through reductions in government expenditures and changes in relative prices. The essence of Stabilization, therefore, is demand management - to bring expenditures in line with available resources. A Stabilization programme, usually administered by the IMF through a `Stand-by' Arrangement with the recipient government, is of relatively short duration and its key targets are fiscal and monetary policy and exchange rate behaviour.

Structural Adjustment: This includes reforms of policies and institutions to improve resource allocation, improve economic efficiency and expand growth potential. The essence of Structural Adjustment, therefore, is on the supply-side - alter the pattern of incentives to stimulate production and growth. A Structural Adjustment programme, of longer duration than a Stabilization programme, can be jointly administered by the World Bank and the IMF.[24]

The major difference between Stabilization and Structural adjustment is the `growth' emphasis of the latter. This emphasis was not present in the IMF's earlier mandate and facilities. The origins of this growth emphasis can be traced to the creation of the IMF's Extended Fund Facility (EFF) in 1974. By the early 1980s, the idea of `adjustment with growth' or Structural Adjustment, had become central to the lending practices of both the Fund and the World Bank.[25] A critical analysis of the evolution of the lending practices of both institutions is provided in chapter four.

Stabilization normally precedes Structural Adjustment and is usually the first step in the overall adjustment process. Stabilization and Structural Adjustment can thus be seen as different phases along the continuum of adjustment. In the subsequent analysis the term `adjustment' is used to refer to policies designed to achieve either Stabilization or Structural Adjustment (or both) unless otherwise stated.

From the perspective of the IMF and the World Bank, at the heart of adjustment is the realization that demand must first be brought into line with diminished external and internal resources (Stabilization), and then these resources must be used more efficiently to promote growth (Structural Adjustment). Although no two adjustment programmes are identical, given the size and importance of the external sector in developing countries, most programmes have a large foreign economic component.

As far as the foreign economic component of adjustment is concerned, the general thrust has been to reduce the external and internal deficits and stimulate export growth by: limiting money supply and credit growth, implementing a currency devaluation, increasing domestic producer prices for export commodities, rehabilitating export infrastructure, and liberalising the trade sector (removing import quotas and tariffs, eliminating price controls and subsidies, etc).

The costs of adjustment are immediately apparent, and inherently painful. These costs, which might include a decrease in the level of output and the overall employment of resources, increased inflation, and changes in income distribution, are not easily avoided.[26] As a result of these economic and social costs, adjustment programmes in LDCs impose substantial political challenges on the regimes undertaking them.

A high proportion of these programmes are either abandoned in midstream, or else experience difficulties after being technically completed. Stephan Haggard's (1985) study of thirty adjustment programmes launched under the auspicies of the IMF's Extended Fund Facility for example, found that twenty four were renegotiated, or had payments interrupted, or were quietly allowed to lapse. Of the twenty four, sixteen were formally cancelled by the IMF for non-compliance.[27] The problem of political sustainability (i.e., the ability to adhere to a programme over a specified period) arises not only from the social and economic costs of adjustment which elicit strong political opposition from influential social groups, but also from the political risks that stem from the uncertainties over the consequences of adjustment.

The management of political costs and risks, therefore, is important to the implementation of adjustment programmes. Although it could be argued as some economists have done, that it is economic factors that drive economic policy and that economic policy is best explained by economic forces, it is politics that drives the perceptions of policy makers of what constitutes acceptable economic advice and thus ultimately shapes the path to adjustment.[28] Thus as Stephan Haggard (1985) notes, economists frequently have to rely upon such political factors as 'political will' and 'commitment' in their explanations of programme successes and failures. But what constitutes 'political will' and 'commitment' and how important are they to the effective implementation of adjustment programmes?

Unfortunately, systematic studies on the politics of adjustment are rare. The issues of political costs and risk, which are linked to the speed and timing of adjustment, as well as the scope and content, have not been adequately investigated. As Joan Nelson (1990) notes, most studies have focused on assessing outcomes of adjustment rather than on examining the political factors that explain the divergences in adjustment choices and implementation, (although it is difficult in practice to separate outcomes from implementation). Nelson's edited volume is the first to bring together a collection of studies on the adjustment efforts in nineteen countries with an explicit focus on the factors determining policy choice and implementation.[29]

Among the factors identified as influencing adjustment choices and implementation by Nelson et al., particularly with respect to timing, content and scope, are the nature of the economic crisis itself, political leadership commitment and support bases, the role and activities of external agencies, and the technical and administrative capacities of the state.[30] The discussion below briefly highlights some of the more controversial issues raised on the politics of adjustment.

The first issue deals with the dilemmas posed by the requirements of adjustment programmes and the declining capabilities of the state in Africa. The existence of a state with a certain degree of political and administrative capacity appears to be a prerequisite for the implementation of adjustment programmes. Many African states, however, plagued by political instability and institutional decay, face a cruel dilemma: although most programmes vary with respect to content, scope and speed, all adjustment programmes generally require a great deal of flexibility in administrative structures to respond effectively to altered signals and resource availabilities, as well as considerable resources and political skill to manage effectively. None of these conditions fit the description of the African state portrayed in the literature.

A related problem on the politics of adjustment is the paradox of the role of the state in the economy. The general thrust of Structural Adjustment programmes is to reduce the role of the state in the economy through cuts in government spending, privatization, restoration or creation of market mechanisms, and trade liberalization.[31] The paradox emerges from the observation that while designed to reduce the role of the state, adjustment requires, at least initially, an actively interventionist state: it is the state that is used to change policy in a less statist direction.

The effects of this paradox become evident in the implementation of Structural Adjustment programmes. As Biersteker (1990) notes, state intervention in an economy is not unidimensional, and thus it is important to differentiate between forms, degrees and the proximate ends of state intervention. States play a variety of roles including regulation, mediation, production, distribution, and planning.[32] Thus, while a programme of Structural Adjustment might reduce the role of the state in certain areas (e.g., production and regulation), it might actually increase the role of the state in other areas (e.g., planning). The differential effects on state intervention of IMF and World Bank prescriptions, however, produce inconsistencies which could undermine the legitimacy of the state itself and undercut its ability to sustain policy reform.

For example, if adjustment reduces the regulatory and productive roles of the state, this may undercut the ability of the state to influence the activities of significant economic actors and provide essential services. In addition, the strict austerity measures, including wage freezes, elimination of subsidies, etc, which reduce the state's redistributive role, undercut its ability to effectively mediate conflict in civil society, which in turn makes it difficult for the regime to build a broader coalition in support of its policies. Thus Biersteker suggests that one of the key factors in sustaining adjustment is the extent to which a state is able to reconcile, or strike a balance among, its conflicting roles.[33]

Another controversial issue raised in connection with IMF programmes is the question of whether some political systems are better suited to manage the costs and risks associated with adjustment. The central issue at the heart of this debate is the question of whether authoritarian regimes are better suited to undertake adjustment programmes, or conversely, whether the programmes themselves are politically destabilizing in ways that elicit authoritarian responses.[34] Is there a relationship between adjustment, repression and authoritarianism?

The conventional wisdom on the relationship between regime type and adjustment, drawn largely from the experiences of Latin America, holds that authoritarian regimes are better suited to sustain adjustment.[35] The major reason advanced is that distributional coalitions (i.e., social groups or organizations for collective action that have little incentive to make sacrifices) are strong in democracies. Only strong authoritarian measures can control these coalitions.[36]

The notion that authoritarian regimes are better suited to sustain adjustment has been challenged by other analysts. Joan Nelson (1984), for example, suggests that governments with good channels of communication to influential groups are in a better position to employ persuasion to contain opposition to an adjustment programme. (Other tactics of sustainability she notes include partial compensation, and diversion or obfuscation).[37] And Stephan Haggard's (1985) study found no correlation between regime type and the ability to sustain adjustment.[38] Other institutional and policy making variables rather than regime type, particularly the role of the bureaucracy, appear to be more important to the effective implementation of adjustment programmes.

Haggard suggests that limitations on the implementation of structural adjustment may also be within government bureaucracies. Haggard's study notes that the power, cohesion and ideological orientation of technocrats is an important variable in explaining the implementation of adjustment programmes. This stems from the observation that the implementation of the policies rests on the compliance, if not support, of a `stabilizing cadre' of technocrats capable of articulating the long-term political benefits of adjustment. The core of this cadre forms the domestic half of a `transnational coalition' with technocrats within the IMF and the World Bank. The existence of an IMF-sympathethic cadre within the state apparatuses, Haggard argues, appears to be a prerequisite for programme success.[39]

The brief review above on the politics of adjustment suggests that voluntarist notions such as `political will' or `leadership commitment', although necessary, are insufficient to overcome the political challenges of adjustment. Sustainability is a product of both voluntarist factors and structural factors. Even if a government is strongly committed to adjustment, there are structural factors, related to the capacities and roles of the state, administrative sub-systems, and the degree of institutionalization of the regime and its socio-economic support bases, that also influence implementation. In addition to these domestic factors, there are important external factors that also affect the sustainability of adjustment, including programme design and the level of external support and finance.

Various aspects of the issues raised in the debate over the politics of the implementation of adjustment outlined above, are represented in the existing case studies of Ghana's policies. These include the studies by John Loxley (1988); Eboe Hutchful (1989); Reginald Green (1988); Kodwo Ewusi (1987); Stephen Younger (1989), Thomas Callaghy (1990), and Donald Rothchild's edited volume (1991).[40]

Among the various factors identified as contributing to the sustainability of the PNDC's ERP are, the high degree of personal popularity, or `political capital' enjoyed by Rawlings (Younger and Green); the insularity of the PNDC and the absence of public participation and discussion (Loxley); and `courage' and `political commitment' on the part of the PNDC leadership (Youger and Ewusi). These studies, however, are largely focused on assessing economic outcomes rather than on explaining the factors influencing policy choices and implementation. They do not, for example, address the political issues of how the PNDC was able to manage costs and risks, nor the issue of how bureaucratic inertia was overcome.

It is only Hutchful's and Callaghy's analyses that come closest to addressing these issues, but even they leave a lot of unanswered questions. Callaghy's analysis, for example, based on the argument that the degree to which an African government can adjust is determined by the extent to which it is able to insulate itself from what he terms the `postcolonial syndrome', simply mentions and describes in about ten pages, the factors that contributed to the high degree of insulation of the PNDC.[41] Similarly, while Hutchful notes that what has distinguished the PNDC's adjustment programme has been the ability of the government to discount the political limits usually associated with Fund programmes, he offers no detailed explanation of precisely what the PNDC's `discounting' tactics were.

Also, although Hutchful's and Callaghy's studies go further than the others in stressing the importance to the sustainability of the PNDC's adjustment programme of a core of committed bureaucrats and technocrats in Ghana, and of the creation of a possible `ideological hegemony' between a core of these technocrats and those in the IMF and the World Bank, they offer little explanation of where this commitment came from or of how this transnational coalition was formed.[42]

Thus there is an important gap existing in the literature on the politics of the implementation of Ghana's adjustment programme. The studies mentioned above do provide useful insights, but no detailed explanations. This, combined with the inconsistencies in the theoretical images and explanations of the state and its capabilities in Africa noted earlier, suggest that there are intriguing questions that remain unanswered. This study intends to further the debate.

<u>Literature on Government Learning</u>.

In the political science literature, the systematic study of government learning is relatively recent. Pioneering works include Rothstein (1984); Haas (1989, 1991), Etheredge (1985), and Nye (1987).[43] Much of this literature has focused on the East - West nuclear relationship, on American foreign policy, or the study of international regimes and institutions. The concept of learning has not been applied systematically to the study of government policy in developing countries. The few studies that have dealt with the subject have focused on the impact of multinational investment in developing countries (Vernon, 1971; Moran, 1974; and Evans, 1987). In this literature, the concepts of the "obsolescing bargain" and the "learning curve" were applied to explain changes in the relationship between multinational corporations and host governments.[44]

Within the existing literature, there is considerable ambiguity surrounding the concept of learning. This ambiguity emerges from disagreements over what learning entails and the epistemological and normative values that underlie discussions of learning. The discussion below summarizes aspects of this debate.[45]

In everyday usage, there are two interrelated meanings of learning. First, the verb "to learn" has a connection with the verbs "to know" and "to believe". The verb "to know" implies validity or truth, whereas "to believe" has no necessary connotation of truth or validity. In this sense, then, learning entails acquisition of knowledge and beliefs that have some truth or validity, that is, "learning about" something. The second meaning of learning in everyday usage, "learning how" involves not only acquiring knowledge and beliefs, but also acquiring behavior that accomplishes some goals or solves some problem.

There are thus two meanings of learning: learning about, and learning how. Usage of the former entails a judgement on the part of the observer of the validity or truth in the learner's knowledge. With the latter, the observer makes a claim that the learner has improved his/her performance in relation to the attainment of certain goals and/or the solving of certain problems and that this is the result of behaviour changes that were preceded (or accompanied) by improvement in the learner's understanding of his/her environment.[46]

These two meanings of the concept of learning are evident in the social science literature. In experimental psychology, for example, learning is defined as a change in the probability of a category of responses as a result of experience. Here, the emphasis is on improved performance towards the attainment of certain goals and/or solving of certain problems, and not necessarily on acquired knowledge or beliefs.[47] In cognitive psychology, learning is defined as increased differentiation and integration of cognitive schemata (belief systems). The emphasis here, is not on whether changes in beliefs result in improved performance, but on changes in the beliefs themselves. Cognitive psychologists also try to avoid judgements about the validity of the beliefs in question and thus in actuality, are not focusing on learning as such, but on changes in the structure of beliefs.[48]

In the political science literature on government learning, the two aspects of learning, "learning about" and "learning how", are given varying emphasis and there is a degree of tension as to which of the two is being used and which constitutes genuine learning. This tension translates into a distinction between what Ernst Haas (1991) posits as adaptation on the one hand and learning on the other.

For Haas, changes in behaviour that do not result from changes in beliefs and/or goals are adaptive changes. Although such changes could result in improved performance, they do not require increased understanding of cause-effect relationships and thus do not constitute genuine learning. Learning is reserved for fundamental changes in understanding of cause-effect relationships and/or reevaluation of goals. Adaptation, therefore, is more mechanistic. One adapts or changes one's behaviour in response to new events without necessarily achieving a greater understanding of the underlying causality or values. Thus overt changes of behaviour although necessary, are not sufficient indicators of learning.[49]

Haas's distinction between learning and adaptation is an intriguing one but it is also quite problematic. On the positive side, it draws attention to the fact that not all changes in behaviour or policy stem from learning. Economic policies for example, can be changed as a result of domestic or external pressures or calculations of immediate self-interest, without a corresponding change in goals or increased understanding of the nature of the problem. Such changes are adaptive changes. The distinction between adaptation and learning becomes problematic when it comes to discerning, empirically, whether or not policy changes were in fact accompanied or preceded by goal redefinition and/or improved understanding.

Even if these empirical hurdles can be overcome, there are two further problems that make the concept of learning especially murky. The first is the tendency to associate learning with `improvement' or `greater effectiveness'.[50] The second problem is the connotation of positive value underlying usage of the term.

The main problem created by building effectiveness into the definition of learning is that even if the goals of policy makers, the belief changes and policy shifts can be accurately observed, there is still the task of defining what improved performance or greater effectiveness entails and the time span over which this performance is judged. This is by no means an easy task given the fact that economic policies that might appear to be effective in certain areas (e.g., reducing the external and internal defícts) might be ineffective in other areas (e.g., increased unemployment, etc). Also policies that might appear effective in the short-term, might be judged ineffective over a longer time span.[51]

The problem created by building positive value into the definition of learning is even more controversial. And the issue here is that of the normative values that underlie the use of the term learning. As Tetlock (1991) notes, it is virtually impossible to use the term learning in a value-neutral way.[52] When an analyst says "learning has occurred" in respect of policy change, the implication is that the analyst approves of the policy changes being described. There is the danger of associating learning only with policy shifts with which the analyst is sympathetic and non-learning with policy shifts the analyst disagrees with.

Thus the possibility of allowing one's own political agenda or ideology to influence the analysis of the occurrence or non-occurrence of learning is very great, particularly, when dealing with an issue area such as development policy, that is characterised by strong disagreements that are not merely technical, but normative and ideological. At the same time, however, aspiring to value-neutrality in an intellectual enterprise is not only unrealistic, but also undesirable. Values must be recognized for what they are and for the role they play in any intellectual undertaking.

Given the ambiguity surrounding the concept of learning, it is useful to clarify how the concept is used in this study and to specify the basis upon which the judgement about the occurrence or non-occurrence of learning in the PNDC's adjustment choices and record of implementation is made.

In the analysis of policy change and implementation, this study employs a conception of learning that is both instrumental and substantive. With the former, the emphasis is on identifying whether, in the process of arriving at a decision to redirect policy, policy makers change their beliefs, goals and/or understanding of the policy problem. This instrumental view of learning does entail making a judgement about effectiveness, but this judgement is restricted to an assessment of whether or not the learning process resulted in a greater (or lesser) ability to sustain the overall reform effort.

In addition to this instrumental view of learning, this study is also concerned with the content and validity of the acquired beliefs - substantive learning. This substantive view of learning entails an assessment of what was learned based on the extent to which the acquired beliefs of policy makers corresponded to what, in the judgement of this author, were the root causes of the policy problem.

This judgement is based on an empirical analysis of the fundamental historical constraints on Ghana's development up to, and including, the period immediately preceding the decision by the PNDC to redirect economic policy. For this reason, a considerable amount of space is devoted in chapter three to tracing the evolution and impact of major economic and political constraints. The question of what the PNDC learned is placed in this historical and empirical context, and the judgement about 'improvement' is made in relation to this context. In this way, the problem of imputing positive value into the analysis of learning is minimised.

Thus, the analysis of the role of learning in the PNDC's adjustment efforts does not entail an endorsement of the established orthodoxy in the IMF and World Bank approaches to adjustment. Nor does it imply an acceptance that the policies prescribed by these agencies are necessarily the 'right' policies to solve the economic problems of the country. For as will become evident in subsequent chapters, there are serious flaws in the design of the programmes, in the phasing and sequencing of policy measures, and in the underlying ideology. To put it another way, the question of what the government learned is viewed in the context of what would not solve the country's economic problems rather than in terms of what would solve the problem.

In the next chapter, a working definition and framework for the analysis of learning is provided.

Literature on the International Political Economy and Foreign Economic Policy Making.

To provide the basis for developing the explanatory framework, two questions, arising from the research problem, guide the review of approaches to the study of foreign economic policy:

1) Does the approach or theory provide adequate conceptual and methodological tools for identifying and explaining sources of

change in foreign economic policy?

2) Does the approach offer insights into the processes involved in the making of policy and into how these policies are implemented?

The evaluation of the alternative approaches to the analysis of foreign economic policy will be based on how well they address these issues.

Two broad approaches to the analysis of foreign economic policy can be identified in the literature. At one end of the spectrum, there are the system-level approaches which tend to focus exclusively on the constraints on, and opportunities for, policy making provided by the international political economy, and at the other extreme are those approaches that focus largely on domestic political and economic factors.

<u>System-level Theory</u>: System-level theories account for state behaviour through an examination of the constraints and opportunities provided by the international system, and derive theoretical propositions only from the relationships among states in the international political and economic systems.[53]

The two most influential system-level theories, neorealism and the world-economy approaches, have been debated and reviewed extensively elsewhere.[54] There is, therefore, no need to enter into an extensive review of these works here. What should be noted is that the key distinguishing feature of a system level theory, whether neorealist or neomarxist, is that variations in state behaviour and outcomes in the system are explained, not on the basis of variations in the states themselves, but on the basis of variations in the attributes of the system (i.e., its structure). Thus the internal attributes of states are given by assumption and are held to be constant, rather than treated as variables.[55]

How valuable is such an approach to the analysis of foreign policy? Identification of the relevant international environment is necessary in any analysis of foreign economic policy since the context of action must be understood before the action itself can be explained. The analytic value of a system-level analysis, as Cohen (1990) notes, is its parsimony. It enables the analyst to concentrate exclusively on the constraints on, and opportunities for, government behaviour that derive from the broader structure of interstate relations.[56]

The major weakness of systemic theory, however, as far as understanding foreign economic policy and changes in such policy is concerned, is that it overemphasizes structure, and has little or nothing useful to say about the agents (the units of the system). Systemic theory identifies only the international constraints placed on nation states and without an analysis of domestic political processes, it is limited to explaining recurrent patterns of behaviour and outcomes in the international system.[57] Thus if an analyst is seeking to explain the foreign economic policy behaviour of a single state, and of changes in such policy over time, systemic theory alone is inadequate.

This argument can be illustrated through a brief evaluation of dependency approaches to the analysis of foreign economic policy. Studies rooted in the dependency tradition have been the only approaches explicitly and systematically to examine the external economic behaviour of developing countries.

Dependency theories provide an analysis of the consequences of a given form of international specialization on the development (or lack thereof) of any given country or region in today's third world. In this respect, dependency theories can be seen as a subset of the `world economy' theories, which examine the origins and causes of this international specialization.[58] Despite considerable differences, the central argument of all dependency approaches can be summarized as follows.

All dependency theories recognize a causal relationship between the historical expansion of international capitalism and the progressive underdevelopment of countries in the periphery. Underdevelopment is thus seen as a specific historical development, a product of relations of production and exchange within a global division of labour. It is this international division of labour, divided into core, semi-periphery, and periphery, that is the prime determinant of economic and political outcomes in the periphery.[59]

The relationship among states within the international division of labour is characterized as one of dependency of the periphery on the core, particularly, in trade, technology and capital. Such dependency relationships are maintained by an infrastructure that reinforces stagnant economic, social and political institutions in the periphery and is strengthened by the cooperation of allied social classes in the periphery whose common identity as a class derives from their dependency on the international economy for their survival.[60] From a dependency perspective, therefore, at least in its more deterministic variants, the foreign economic behaviour of any given state will derive from that state's location in the international division of labour.

Two distinct but interrelated usages of the concept of dependency in the analysis of the external behaviour of third world countries can be identified. James Carporaso (1978) points out the differences between dependen<u>ce</u> and dependen<u>cy</u>.[61] Dependence is a relational or `net' concept measured by looking at the differential between A's reliance on B and B's reliance on A in a dyadic relationship.[62] Dependency, on the other hand, is a structural concept that implies the absence of actor autonomy, particularly in relation to development goals and is measured by looking at the actor in relation to all, or the most important, external influences.[63] Thus although both concepts require an emphasis on systemic influences, they differ in terms of how this influence is observed and measured.

Studies by Richardson (1978), Richardson and Kegley (1980), and Armstrong (1981), are examples of studies that have employed dependence to refer to asymmetric bargaining in a dyadic relationship. These analysts attempted to specify a causal relationship between dependent country foreign policy and the threat and/or application of sanctions and rewards by dominant external interests. Their findings suggested compliant behaviour by the weaker state with the wishes of the dominant.[64]

The major problem with this bargaining model is that measuring influence in a dyadic relationship is slippery. It can only be determined in relation to a counterfactual. Thus, the fact that a dependent state pursues policies that are in accord with the preferences of a dominant external partner, does not necessarily imply that the policies were imposed unwillingly. It is entirely conceivable that the preferences of both actors coincided and that the policy outcome reflected not compliance, but consensus. The bargaining model, however, provides no means to differentiate between the two.[65]

Adopting a more structural conception of the dependency relationship between an actor and its external environment can also lead to unsatisfactory conclusions about the sources of policy. As a structural concept, dependency is fuzzy and ambigous at best, which makes measurement imprecise.[66] And studies that have employed a structural conception of dependency tend to be overly static. Bruce E. Moon (1985) for example, argues that in the absence of regime change, dependent country policy is unlikely to show any significant change.[67] Obviously, Moon is not aware of the case of Ghana.

Thus the problem of relying on a system level approach, whether in terms of dependence or dependency, is that it cannot provide adequate answers to the two questions posed earlier. To adequately identify and explain sources of change in foreign economic policy, it is not sufficient to observe the outcome of a bargaining relationship in an asymmetric dyad nor is it sufficient to identify the constraints on policy making that derive from the system structure. Neither approach provides adequate means to identify the preferences and the sources of the preferences underlying the policies. Thus even in cases where it might appear obvious that external influences were strong, and/or that systemic constraints severely limited the range of options available to policy makers, it is necessary to determine how policy preferences were formulated in response to these external influences and constraints.

Moreover, system level theory provides no answers to the second question, i.e., how policies were implemented. Focusing on structures and relations of dependence/cy offers no insight into the processes involved in the implementation of policy. These limitations make it necessary to open up the `black box' of the policy making process by examining the internal attributes and characteristics of states, to account for how the structural constraints of the international political economy, and the influence of dominant external interests, are translated into observable policy behaviour and outcomes.

<u>Domestic-level Theories</u>: Domestic, or unit level approaches, focus attention on the interactions among actors, inside or

outside the government, that have actual or potential influence on a state's foreign economic behaviour. Domestic level approaches rest on fundamentally different assumptions regarding the motivations underlying state behaviour. While a system level approach assumes that states, in their foreign economic behaviour, are primarily responsive to changes in systemic constraints and incentives, domestic level approaches assume that the sources of states' policy preferences lie in domestic political and economic structures and processes.

Within this level of analysis, two competing perspectives have emerged, the state-centred and society-centred perspectives. The debate between these perspectives has centred on the issue of whether state actors (officials and/or institutions) or societal actors (interest groups, classes and/or institutions) are more important in the determination of foreign economic behaviour and outcomes.[68] This issue arises because the arena of foreign economic policy making, much more than any other issue area, involves societal and state actors making choices affecting economic transactions across national boundaries, and the controversy revolves around the degree of explanatory weight that is to be accorded to state or societal factors in shaping such policy.

Is this debate really fruitful? The relative impact of state and societal factors in the determination of policy is relative and contingent, not only on the issue area, but also historically. Thus no real contribution to an understanding of foreign economic policy making can be obtained from a rigid and somewhat artificial ontological separation of domestic political processes into `state' and `society'. There are several reasons for this.

Any debate on the relative importance of state and societal actors in determining policy, is based on the assumption that there are clear-cut distinctions between actors in the two domains (i.e., between the `public' and `private' domains). In many African countries, however, where distinctions between state and societal actors are fluid and intersect at various points, there is no theoretical justification in casting the relationship in zero-sum ("either-or") terms.

Thus, as Migdal (1987) notes, it is neccessary to move away from abstract typologies (of `strong' and `weak' states) that simply pit state against society.[69] The state is part of society and is embedded within the network of social/class relations that define its characteristics, not a reified and omniscient entity as some recent theories of the state would have us believe.[70] What needs to be identified are the distinctive patterns of state-society relations at particular historical periods to determine their relative impact on policy behaviour and outcomes.

A second and related problem centres on the problematique of state autonomy. Protagonists of an emphasis on the state claim that the Marxist and pluralist perspectives accord no real autonomy to the state, and reduce it to an arena of social conflict. In their effort to distance themselves from these so-called `reductionist' perspectives, however, contemporary statists have failed to demonstrate convincingly that a renewed emphasis on the state provides heuristic benefits that could lead to the development of better explanations and theory.[71]

Thus, although it is the emphasis on state autonomy that supposedly differentiates statist approaches from `reductionist' society-centred approaches, the concept of autonomy is never clearly defined and specified. Instead, many statists have resorted to cyclical and tautological reasoning when dealing with the concept of state autonomy.

An example of this tautology is found in state-centred analyses in the realist tradition (Krasner, 1978; Lake, 1988). These analysts posit that a state is autonomous to the extent that it can translate its own preferences (as distinct from societal preferences) into policy. The problem with this formulation is that a state's autonomy can only be determined after the fact - in terms of policy and outcomes. In addition, to define autonomy in terms of the ability to realise objectives or preferences tells us nothing about the content of these preferences or how they are defined.[72] To define state autonomy in this way fails to take into consideration the fact that the state is not a monolothic entity. Conflicts over preferences occur within the state as well as between state and society. To simply assume state preferences and to hold them constant minimizes the importance of conflicts of interest within the state and fails to consider that state actors often adjust their preferences to what they think they can accomplish.[73]

Furthermore, statists have tended to treat the issue of state autonomy as synonymous with state `strength'. Adopting a Weberian conception of the state, they produce zero-sum propositions about state autonomy, i.e., the increased ability of the state to realize internally generated preferences or goals supposedly reduces the power of all societal groups outside the state. Conversely, the existence of well organized social groups with significant political resources implies a less autonomous state.[74] Consequently, a state is strong to the extent that it approximates the Weberian ideal of a rational bureaucracy, and autonomous to the extent that it can realize its own internally generated preferences.

This implies that state autonomy and state strength/capacity necessarily go hand-in-hand. As noted in the review of the literature on the state and its declining capabilities in Africa, however, state autonomy and state capacity are not necessarily correlative. The state in post-colonial Africa can be viewed as simultaneously `strong' and `weak', and this stems from the fact that the same factors that supposedly enhance autonomy (e.g., the absence of a dominant class with strong ties to the state) also undermine the state's capacity for effective policy action, and hence weaken the state vis-a-vis not only societal forces, but also transnational forces.

Thus as far as African states are concerned, the relationship between autonomy, strength, and capacity cannot be described along a single dimension. This holds true whether this dimension focuses on the internal structures and relations of the state (state-centred analysis), or on the relationship between the social structure and the state (society-centred analysis). The state, after all, stands at the intersection between the domestic political economy and the international political economy, with each arena, including the state itself, generating distinctive patterns of interactions.

While analytic emphasis on the state does redress some of the inadequacies of society-centred approaches (i.e., the tendency to reduce the state to a mere arena where social interests compete), the uni-dimensional conception of the state employed in some statist approaches, confounds the issue of state autonomy by equating it with state capacity. States are not equally capable of intervening in socio-economic life, and the capacity of any given state will vary according to the issue area, over time and, as Biersteker (1990) notes, according to the the kinds of roles they play.[75] Any meaningful discussion of state capacity, therefore, cannot be divorced from an examination of the historical context, the issue area, and roles.

Thus, exclusive focus on the state may risk obscuring and even neglecting other social forces outside the domain of the state which have important influences in the determination of policy. This is especially so in the case of African countries where the state is seldom a unified and coherent entity, and where, as Jackson and Rosberg (1982) have noted, there is good reason to question the empirical properties usually assigned to the state.[76]

In many underdeveloped societies, therefore, the most subtle and fascinating patterns of political change emerge in patterns of conflict and accommodation within the state, as well as between the state and other powerful organizations and groups in society. These patterns of conflict and accommodation, which have a significant impact on policy, cannot simply be predicted by assuming the autonomy of the state, or its malleability in the hands of societal forces (as is the case in pluralist approaches), or by viewing the state (as in certain Marxist and pseudo-Marxist approaches) as the mere instrument of a dominant class. As Migdal (1987) succintly puts it, "the struggle over the state's desire for predominance, the accommodations between states and others, and the manuevering to gain as best a deal as possible in any arrived at solution, are the <u>real</u> politics of many third world societies."[77]

The current issues raised in the state-society debate thus provide too limited a view through which to analyse the dynamics of the policy making structures and processes in African countries. What is required is an alternative conceptualization that focuses not on the state <u>or</u> society, but on the patterns of conflict and accommodation <u>within</u> the state and <u>between</u> state and society, and confronts the interchanges between factors at the two levels.

Conclusion: Two interrelated issues, the methodological issue of the most appropriate level(s) of analyis, and the conceptual issue of defining interests have been raised. As far as the former issue is concerned, the conclusion is that neither a systemic nor domestic level explanation on its own will be sufficient for the purposes of explaining Ghana's foreign economic policies. Variables at both levels have to be considered. The more important issue thus concerns the specification of the interactions among variables at the two levels and the degree of explanatory weight to be attached to either systemic or domestic level factors.

As far as the definition of actor interests is concerned, most existing approaches to the analysis of foreign economic policy are choice-theoretic in that they assume interests and hold them constant. The discussion above briefly alluded to the problems this creates for identifying and specifying the sources of the preferences underlying policy behaviour in both system level and domestic level approaches.

Any approach that stipulates exogenously given interests, while it may be parsimonious, has a serious drawback in that it offers no explanation for the preconditions for choice.[78] In other words, where a choice-theoretic approach would ask: given assumed interests, and certain specified conditions, what choices will be made to maximise utility? This study asks, what are the conditions and how are the interests defined in the making of policy choices?

This study, then, is less concerned with the choices themselves and more concerned with identifying the preconditions for choice. To this end, the analysis of how interests and preferences are formulated in the first place is just as important, if not more so, than the analysis of how these interests are translated into observable policy choices. Actors can be realistically expected to have a range of interests that might be competing. The behaviour of African governments, which appear to be preoccupied with interests other than those a choice-theoretic approach may assume, (i.e., promoting economic development or maximizing some welfare function) is evidence of this. In this study, the interests and goals of policy makers become the subject of sustained empirical enquiry, rather than mere analytic assumptions.

NOTES

1. World Bank, Ghana: Policies and Programme For Adjustment, (Washington, D.C.: World Bank, 1984).

2. These governments are: Parliamentary democracy (Nkrumah's Convention Peoples Party, 1957-1960; Busia's Progress Party, 1969-72; and Limann's Peoples National Party, 1979-81). Single party authoritarian (Nkrumah's CPP, 1960-1966). Coercive personal rule (Acheampong's National Redemtion Council and Supreme Military Council I, 1972-1978). Military coalitions (The National Liberation Council, 1966-1969; The Supreme Military Council II, 1978-1979; Rawlings' Armed Forces Revolutionary Council, June - Sept. 1979 and PNDC, December 31, 1981 to date).

3. Pioneering works on the state in Africa include: David Apter The Gold Coast In Transition (Princeton, 1955); Edward Shills, Political Development in the New States (The Hague, 1966); Michael F. Lofchie (ed) The State and Nations: Constraints on Development in Independent Africa (Berkeley, 1971); For a good overview of the early literature on the state in Africa, see Frank M. Stark, "Theories of Contemporary State Formation In Africa: A Reassessment" Journal of Modern African Studies 24, (June, 1986) pp.335-347.

4. It is important to emphasise that the classification or identification of the four themes on the role of the state in development in Africa, is somewhat arbitrary. Many approaches will not fit neatly into the categories I identify. The classification therefore, is mainly for the sake of brevity and contrast, and is not meant to be an exhaustive coverage.

5. See Naomi Chazan and Donald Rothchild (eds) The Precarious Balance: State and Society in Africa (Boulder: Westview, 1988); Patrick Chabal (ed), Political Domination in Africa: Reflections on the Limits of Power (New York: CUP, 1986); and Robert Price, "Neocolonialism and Ghana's Economic Decline: A Reassessment." Canadian Journal of African Studies, 18, 3, 1984.

6. See Goran Hyden, No Short Cuts To Progress (Berkeley: Univ. of California Press, 1983).

7. See Richard Sandbrook, The Politics of Africa's Economic Stagnation. (Cambridge: Cambridge Univ. Press, 1985). Chapter five.

8. See for example Colin Leys, Underdevelopment in Kenya (London: Heineman, 1975) and "Capital Accumulation, Class Formation and Dependency - The Significance of the Kenyan Case". The Socialist Register, 1978 (London, 1979); Claude Meillasoux, "A Class Analysis of the Bureaucratic Process in Mali", Journal

of Development Studies, 6, (1969-70); Issa Shivji, Class Struggles in Tanzania (New York: Monthly Review, 1976); and Michaela Von Freyhold, "The Post-Colonial State and its Tanzanian Version". Review of African Political Economy, 8, Jan- Apr, 1977.

9. In this respect, this perspective is similar to the `leadership' approaches, expressed in the work of Sandbrook. See John Saul, "The State in Post-Colonial Societies: Tanzania" in The Socialist Register, 1974. (London, 1974). Also in Harry Gouldbourne (ed) Politics and State in The Third World (London: MacMillan, 1979). For a good analysis of the problems of class analysis, see Nelson Kasfir, "Relating Class to State in Africa", Journal Of CommonWealth and Comparative Politics, 3, (Nov, 1983)pp. 1-20.

10. For example, one image portrayed is that of a state that has been permeated by society or has been captured by the demands of the `economy of affection' and thus lacks any significant degree of autonomy. This lack of autonomy is the major impediment to effective socio-economic intervention (Chazan, Price, Hyden). Another image is of a state that is relatively autonomous by virtue of the absence of a domestic dominant class and/or a weakly articulated class system (Saul, Sandbrook). This relative autonomy, however, does not enhance the state's capacity for socioeconomic intervention but rather diminishes it (because the state is caught between the conflicting interests of competing classes). A third image portrayed is that of a state that lacks any significant degree of automomy because it is either the instrument of international capital or of a domestic bourgeoisie (or both?). And the state's weakness derives from its subordination to the interests of these classess.

The broad themes identified in the literature on the state and development in Africa, differ not only in their explanations for the declining capabilities of the state, but also in their identification of the factors and processes that could reverse this trend. The society-based explanations that emphasise the autonomy of society (Hyden) recommend the emergence of an independent entrepreneural class that is capable of breaking the ties of the economy of affection and thus ensure the adoption of policies that will promote capitalism. The leadership approaches (Sandbrook) recommend the emergence of a leader with exceptional political skills and with a long sighted strategy that can contain the destructive aspects of neopatrimonialism. The class analyses suggest the formation of a vanguard and hegemonic (Leninist) party that is capable of controlling the state and of providing the bases for the development of a socialist development strategy.

11. For a discussion of the difficulties of specifying the relationship between state strength, autonomy, and its capacity for socio-economic intervention, see Peter Evans and Dietrich Reuschemeyer, "The State and Economic Transformation: Toward an

Analysis of the Conditions Underlying Effective Intervention", in Evans, Reuschemeyer and Skocpol (eds) Bringing The State Back In (Cambridge: Cambridge Univ. Press, 1985) pp.44-78.

12. See Naomi Chazan, "Ghana: Problems of Governanace and the Emergence of Civil Society" in Larry Diamond et.al. Democracy in Developing Countries (Lynne Renner, 1988) pp. 93-139. See also, Naomi Chazan, An Anatomy of Ghanaian Politics: Managing Political Recession (Boulder: Westview, 1983).

13. Naomi Chazan, 1988 op.cit, p. 120.

14. The NRC, which began as a coalition of the military, the bureaucracy and traditional rulers, had set out in 1972 to depoliticize political life and to redress some of the excesses of the Busia regime it had overthrown. Despite what appeared to be a promising beginning, during which the government's "self-reliance" programme produced some bumper crop harvests, by 1977, the economic downturn was unprecedented. What is most ironic is that economic conditions worsened at the same time that the world prices for Ghana's principal export - cocoa - were at an all-time high. Thus although events in the international economy during that period (i.e., the oil price increases of 1973-74), might have contributed to Ghana's economic downturn, they certainly were not the principal cause.

By 1978, Acheampong had succeded in alienating just about every sector in Ghanaian society. Dissatisfaction turned into ouright civillian revolt and over one million Ghanaians simply abandoned the country in search of greener pastures elsewhere.

15. Naomi Chazan, 1988, op.cit, p.119.

16. See Eboe Hutchful, 1989 pp. 92-131. This duality emerged during the First Republic (1960-66) when Nkrumah's CPP government created a parallel bureacracy centred around the party. This party machinery functioned along-side the (party-controlled) state bureacracy and institutionalized a dualistic structure that limited the freedom of the technocrats and exposed them to political pressures. Hutchful argues that it is the conflict between the `political rationality' of the politicians and political cadres, and the `technocratic rationality' of the bureaucrats and specialist planners that has proved decisive in determining the policy directions of the Ghanaian state.

For a fuller discussion of the duality in Ghana's administrative structures, see Benjamin Amonoo, Ghana, 1957-66: The Politics of Institutional Dualism (London: Allen and Unwin, 1981) and Richard Crook, "Bureaucracy and Politics in Ghana: A Comparative Perspective." In P. Lyon and J. Manor (eds) Transfer and Transformation: Political Institutions in The New Commomwealth. (Leicester, 1983).

17. The change in Hutchful's views on the relationship of the Ghanaian state to domestic and external classes becomes apparent when contrasted with his views in The IMF and Ghana (London: Zed press, 1987).

18. Hutchful, 1989, ibid, p 127.

19. Hutchful, 1989, ibid, p.127.

20. For a fuller discussion of the concept of `disengagement', see Naomi Chazan, "Patterns of State-Society Incorporation and Disengagement in Africa." in Chazan and Rothchild (eds) The Precarious Balance: State and Society in Africa. (Boulder: Westview, 1988)pp. 121-148

21. See Kwame Ninsin "Three Levels of State Reordering: The Structural Aspects". In Chazan and Rothchild (eds), 1988, ibid, pp. 265-281.

22. Stephen Younger "Ghana: Economic Recovery Programme. A Case Study of Stabilization and Structural Adjustment in Sub-Saharan Africa." in Successful Development in Africa World Bank-EDI Policy Case Series #1. (Wash, D.C.: World Bank, 1989) pp. 128-173.; Eboe Hutchful, 1989, op.cit., pp.93-131.

23. This is reflected in the variety of names that have been used to describe states in Africa - `dependent capitalist' or `neo-colonial state', `corporatist state', `bureaucratic collectivist state', `patrimonial state', `paternalistic state', etc.

24. World Bank, Adjustment Lending: An Evaluation of Ten Years of Experience. (Washington, D.C.: World Bank, 1988. pp. 10-11.

25. For a discussion of IMF lending practices, see J. Spraos, IMF Conditionality: Ineffectual, Inefficient and Mistargetted, (New Jersey: Princeton, 1986); World Bank, Report on Adjustment Lending, (Washington, D.C: World Bank, August, 1988). Also, Bade Onimode (ed) The IMF, the World Bank and the African Debt. V 1. pp. 11-34.

26. Joan M. Nelson, 1984, op.cit, p. 99. With financing, in contrast to adjustment, a government prefers to avoid immediate reallocation of resources, or a reduction in the absorption-production ratio, by printing currency, foreign borrowing, running down its international reserves, or all of these.

The choice between financing and adjustment reflects the comparative costs of each, the availability of external sources of credit and the terms on which such credit is available. With adjustment, the costs are immediately apparent. The costs of financing on the other hand, are not immediately apparent, but must be borne in the future, when monetary reserves must be replenished and foreign debts repaid. This possibility of avoiding immediate costs, makes financing more attractive to countries facing payments imbalances and indeed, in the years preceding the on-set of widespread debt-servicing difficulties in 1982, most LDC's, particularly the middle-income countries with higher credit ratings, prefered this option.

See Benjamin Cohen,"Balance of Payments Financing: Evolution of a Regime." in International Organization,36, 2, (Spring, 1982) pp 315-336. Also in Stephen Krasner (ed) International Regimes (Ithaca: Cornell, 1983). See also, Miles Kahler, "Politics and International Debt: Explaining the Crisis." International Organization, 39,3, (Summer, 1985), pp. 357-382; and Charles Lipson, "The International Organization of Third World Debt", International Organization, 35, 4, (Autumn, 1981) pp. 603-631.

27. See Stephan Haggard "The Politics of Adjustment: Lessons from the IMF's Extended Fund Facility." International Organization, 39, 3 (Summer, 1985) pp.504-534.

28. See for example, J.B. Zulu and S.M. Nsuoli Adjustment Programmes in Africa (Wash, D.C: IMF Occasional Paper #34, 1983).

29. Joan M. Nelson (ed) Economic Crisis and Policy Choice: The Politics of Adjustment in the Third World (Princeton: PUP, 1990).

30. Joan M. Nelson, 1990, ibid, pp. 3-33.

31. For an explanation of the differences between orthodox and neoorthodox approaches to adjustment, see Miles Kahler, "Orthodoxy and its Alternatives: Explaining Approaches to Stabilization and Adjustment". In Joan Nelson (ed) Economic Crisis and Policy Choice. pp. 33-61.

32. Thomas J. Biersteker, "Reducing the Role of the State in the Economy: A Conceptual Exploration of IMF and World Bank Prescriptions". International Studies Quarterly 34, 4, (December, 1990) pp. 477-492.

33. Biersteker, (1990) ibid, pp. 489-491.

34. See Stephan Haggard, 1985, op.cit, p.509. One of the earliest critiques of the IMF along this line was Cheryl Payer The Debt Trap: The IMF and the Third World (New York: Monthly Review Press, 1974). See also, Joan Nelson (ed) 1990, op.cit, pp. 22-23.

35. See for example, Roberto Frenkel and Guillermo O'Donnell, "The `Stabilization Programmes' of the IMF and their Internal Impacts" in Richard Fagen (ed) Capitalism and the State in U.S.-Latin American Relations (Stanford: Stanford Univ. Press, 1979); James Malloy (ed) Authoritarianism and Corporatism in Latin America (Pittsburgh: Univ. of Pittsburgh Press, 1977); and Carlos Diaz-Alenjandro "Southern Cone Stabilization Plans", in Cline and

Weintraub (eds) Economic Stabilization in Developing Countries (Wash, D.C: Brookings, 1981).

36. The concept of `distributional coalitions' was developed by Mancur Olsen. See Mancur Olsen The Logic of Collective Action (Cambridge: Harvard Univ. Press, 1971). See also Robert Bates, Markets and States in Tropical Africa (Berkeley: Univ. of California Press, 1981).

37. Joan M. Nelson, 1984, op.cit, pp.111-114.

38. Stephan Haggard, 1985, op.cit, p. 530.

39. ibid, pp. 531-534.

40. See Eboe Hutchful "From `Revolution' to Monetarism," 1989); John Loxley, Ghana: Economic Crisis and the Long Road to Recovery (Ottawa: North-South Institute, 1988); Reginald H. Green, Stabilization and Adjustment Programmes and Policies: Ghana (Helsinki: WIDER, 1988); Kodwo Ewusi, Structural Adjustment and Stabilization Policies in Developing Countries: A Case Study of Ghana's Experience (Tema, Ghana: Ghana Publishing Corp, 1987); Stephen Younger "Ghana: Economic Recovery Programme, A Case Study of Stabilization and Structural Adjustment in Sub-Saharan Africa", World Bank - EDI Development Policy Case Series #1, Successful Development in Africa (Wash, D.C.: World Bank, 1989); and Thomas Callaghy "Lost Between State and Market: The Politics of Economic Adjustment in Ghana, Zambia and Nigeria" in Joan Nelson (ed) Economic Crisis and Policy Choice (Princeton: PUP, 1990); and Donald Rothchild (ed) Ghana: The Political Economy of Recovery, (Boulder: Westview, 1991).

41. Thomas Callaghy, 1990, op.cit, pp. 257-321.

42. Eboe Hutchful, 1989, pp.98-114.

43. See R. Rothstein, "Consensual Knowledge and International Collaboration: Some Lessons from the International Commodity Negotiations." International Journal 34, 4 (Autumn, 1984); E.B. Haas, When Knowledge is Power, (Berkeley: Univ. of California Press, 1989); Lloyd Etheredge, Can Governments Learn? (New York: Pergamon Press, 1985); and Joseph Nye, "Nuclear Learning and U.S.-Soviet security Regimes." International Organization, 41 3, (Summer, 1987) pp. 371-402.

44. See Raymond Vernon, Sovereignty at Bay: The Multinational Spread of U.S. Enterprises. (New York: Basic Books, 1971); and Theodore H. Moran, Multinational Corporations and the Politics of Dependence: Copper in Chile. (New Jersey: Princeton Univ. Press, 1974). See also, Peter Evans, "Foreign Capital Penetration and the Third World State", in S.P. Huntington and M. Weiner (eds)

Understanding Political Development. (Boston: Little, Brown, 1987), pp. 319-352.

45. The discussion in this section draws extensively on Learning in U.S. and Soviet Foreign Policy. Edited by George W. Breslauer and Philip E. Tetlock. (Boulder, Colo: Oxford Univ. Press, 1991)

46. George W. Breslau and Philip Tetlock. "Introduction" in Ibid, pp. 4-6.

47. Breslauer and Tetlock, 1991, pp.8-9.

48. Breslauer and Tetlock, 1991, p.9. See for example, W.J. McGuire, "The Nature of Attitudes and Attitude Change." In Hand Book of Social Psychology. (Reading, Mass: Addison-Wesley, 1980).

49. With learning on the other hand, changes in behaviour are accompanied by a reassessment of fundamental beliefs and values that draws on the `consensual knowledge' of what Haas terms an `epistemic community' (i.e., a professional group with some expert or scientific knowledge in a particular area, or areas). From Hass's perspective, policy makers have learned when they adopt a new, typically more complex `theory' of the causal processes at work in a problem area and it is this `theory' that guides the selection of objectives and options. See Haas, 1991, pp. 72-73; Tetlock, 1991, p.45.

50. See Joseph Nye, 1987, p. 379.

51. The literature on the economics of stabilization and structural adjustment is characterised by strong disagreements among analysts over the effectiveness of these programes in achieving their macroeconomic targets, and over how the impact of these programmes on the economic walfare of developing countries should be assessed.For a review of the major issues in this debate, see Mohsin S. Khan, "The Mcroeconomic Effects of Fund-Supported Adjustment Programs." IMF Staff Papers 37, 2, (June 1990), pp. 195-321.

52. See Tetlock, 1991, pp. 51-53.

53. See Robert Keohane, (ed) Neorealism and Its critics (New York: Columbia, 1986) p. 193.

54. See Robert Keohane (ed) ibid, for excellent critiques of neorealism. See also, Brenner, R. "On the Origins of Capitalist Development: A Critique of Neo-Smithian Marxism" New Left Review, 104, pp. 25-92, for a critique of Wallerstein's world-economy theory.

55. Waltz's "third image" realism for instance, derives predictions of state behaviour from the `distritribution of capabilities', a structural attribute of the system. See Kenneth Waltz, Theory of International Politics (Addison-Welseley, 1979). The theory of "hegemonic stability" (Keohane, 1980, 1984; Gilpin, 1987; McKeown, 1983), a derivative of neorealism, but with a more explicit economic focus, similarly places explanatory weight on systemic structures.The theory was developed to explain "cooperation" and the rise (and fall) of international economic "regimes", but is also relevant in the explanation of foreign economic policy. From this perspective, a country's position in the international political economy, shapes its foreign economic policy. The literature on Hegemonic Stability, Cooperation and International Regimes is voluminous. A brief selection includes: Robert Keohane After Hegemony: Cooperation and Discord in the World Political Economy (Prineton, N.J: PUP, 1984); Robert Gilpin, The Political Economy of International Relaticns (Princeton, N.J: PUP, 1987); Timothy McKeown, " Hegemonic Stability Theory and Nineteenth-century Tariff Levels in Europe" International Organization 37, (Spring, 1983); Stephen Krasner, (ed) International Regimes (Ithaca: Cornell, 1982); Kenneth Oye Cooperation Under Anarchy (Princeton, N.J: PUP, 1986); and Duncan Snidal, "The Limits of Hegemonic Stability Theory" International Organization 36 (Autumn, 1985), pp. 579-614.

56. Benjamin Cohen, "The Political Economy of International Trade" in International Organization, 44, 2, (Spring, 1990), p. 268.

57. One of the major weaknesses of structural systemic theory, is its inability to cope with change. Waltz's theory for example, is resolutely concerned with structural continuity. His theory is static - it predicts balancing, and the theory is directed at explaining recurring patterns of actions and outcomes in the state system. Stability for Waltz, is continuity, and change, by extension, represents instability. See Kenneth Waltz, Theory of International Politics, (Reading, Mass: Addison-Wesley, 1979).

This inability to cope with change is also evident in neorealism's chief systemic competitor, the world system theory of Wallerstein. The principal weakness of the world system approach is that it fails to explain anything but behavioural conformity to structural demands. There has been a tendency, evident in the early work of Wallerstein, to fall into an historical determinism in which the history of the world system itself becomes a system. History is turned into structure and change becomes a radical discontinuity - a leap from structure to structure. Thus it is that the major transformation of the modern world system cannot be explained by Wallerstein (i.e., from feudalism to capitalism). He is forced into an explanation of the transition in terms of exogenous shocks. See Wallertstein, I. "The Rise and Future Demise of the World Capitalist System:

Concepts for Comparative Analysis." Comparative Studies in Society and History, 16, (Sept, 1974) pp. 387-415. See Also, Alexander Wendt "The Agent-Structure Problem in International Relations Theory" International Organization, 41, 3, (Summer, 1987) pp.335-370; and David Dessler, "What's at stake in the Agent-Structure Debate?" in International Organization, 43, 3, (Summer, 1989), p.444.

58. See Anthony Brewer, Marxist Theories of Imperialism (London: Routelege & Kegan Paul, 1980). Chapter seven. Also, Tony Smith, "Requiem or New Agenda for Third World Studies?" World Politics, 37, 4, (July, 1985) pp. 532-561.

59. The precise mechanisms through which the international division of labour acts to distort the economies of countries in the periphery is the subject of debate among theorists. A.G. Frank, for example, in Captilaism and Underdevelopment in Latin America (1966) utilizes the concept of an `economic surplus' which is appropriated by foreign monopoly capital and which prevents the accumulatuon of capital locally. Samir Amin in Unequal Development (1976) and A. Emmanuel in Unequal Exchange (1972) describe the relationship of exploitation in terms of unequal exchange of goods and services between core and peripheral countries during trade.

60. Smith, 1985, op.cit, pp. 564-547.

61. See James Carporaso, "Dependence, Dependency and Power in the Global System: A Structural and Behavioural Analysis". International Organiztion, 32, 1 (Winter, 1978) pp. 13-43.

62. In this relational sense, dependence means asymmetric interdependence, and the opposite of dependence is symmetric interdependence, in which A and B are equally reliant upon each other.

63. Measuring dependency thus requires that the analyst take into account contextual and distributional properties to adequately capture the relevant constraints and opportunities available to an actor. In this sense, the opposite of dependency is not interdependence, but autonomy.

64. See Neil R. Richardson, Foreign Policy and Economic Dependence (Austin: Univ. of Texas Press, 1978); N. R. Richardson and Charles Kegley, "Trade Dependency and Foreign Policy Compliance". International Studies Quarterly, 24, (1980) pp. 191-222; and Adrienne Armstrong, "The Political Consequences of Economic Dependence", Journal of Conflict Resolution, 25, 3, (1981) pp. 401-428.

65. See Bruce E. Moon, "Consensus or Compliance? Foreign Policy Change and External Dependence". in International Organization, 39, 2 (Spring, 1985) pp. 297-329. On the issue of counterfactuals, see James Fearon, "Counterfactuals and Hypothesis Testing in Political Science". World Politics, 43, 2, (January, 1991) pp. 169-195.

66. See James Carporaso, 1978, op.cit

67. Bruce E. Moon (1985), op.cit, pp. 312-315.

68. For examples of state centred approaches, see Stephen Krasner Defending the National Interest. (New Jersey: Princeton, 1978); Peter Katzenstein Small States in World Markets (Ithaca: Cornell, 1985); Ikenberry, Lake and Mastanduno (eds) The State and American Foreign Economic Policy (Ithaca: Cornell, 1988); J.P. Nettle, "The State as a Conceptual Variable" World Politics 20, 4, (1968) pp.559-592; Ikenberry, Lake, and Mastandunno "Toward a Realist Theory of State Action" International Studies Quarterly 33, 4,(December, 1989) pp.457-474; and Stephen Krasner "Approaches to the State: Alternative Conceptions and Historical Dynamics" Comparative Politics 16, 2, (1984); Kim R. Nossal "Mixed Motives Revisited: Canada's Interest in Development Assistance" Canadian Journal of Political Science 21, (March 1988), pp.37-56. For society centred approaches, see Peter Gourevitch Politics in Hard Times (Ithaca: Cornell, 1986); Charles Lindbloom Politics and Markets (New York: Basic Books, 1977); Theodore Lowi The End of Liberalism (New York: Norton, 1969); Cranford Pratt, "Canadian Policy Towards the Third World: Basis for an Explanation" Studies in Political Economy, 3, (Spring, 1984), pp. 27-55. For an excellent overview of the state-society debate in the African context, see Naomi Chazan and Donald Rothchild (eds) The Precarious Balance: State and Society in Africa (Boulder & London: Westview, 1988).

69. See Joel Migdal "Strong States, Weak States, Power and Accommodation." In Huntington and Weiner (eds) Understanding Political Development (Boston: Little & Brown, 1987) p. 396.

70. For a discussion of recent theories of the state, see Martin Carnoy The State and Political Theory (New Jersey: Princeton, 1984.)

71. Many neo-statist writers resort to illustration rather than explanation when utilizing a state centred approach. It is therefore, difficult to ascertain the extent to which their approaches differ from the so-called reductionist society-centred approches. Several prominent statists, including Theda Skocpol and Stephen Krasner, have difficulty differentiating their approaches from neo-marxist structural theories of the state, a fact which Krasner (1978) readily admits to. See Stephen Krasner,

Defending the National Interest (New Jersey: Princeton, 1978). For a critique of neo-statism, see Gabriel Almond, "Return to the State" American political Science Review 82, 3 (Sept, 1988) pp. 853-873.

72. See Stephen Krasner ,1978; Lake, Mastanduno and Ikenberry (eds) The State and American Foreign Economic Policy (Ithaca: Cornell, 1988) and Eric Nordlinger "Taking the State Seriously" in Huntington and Weiner (eds) Understanding Political Development, 1987, pp. 353-391.

73. The tendency to view the state as a monolithic and unitary actor, has been a hallmark of realist approaches in international relations. In this `power politics' tradition, economics is subordinate to politics, and the concepts of `power' and the `national interest' dominate. State action is viewed primarily as a pursuit of power, and interests are derived either inductively from the behaviour of states (Krasner, 1978), or deductively, from the `distribution of capabilities' (Lake, 1988; Krasner, 1985; Tucker, 1977). Viewed from this perspective, a state's foreign economic behaviour is subordinate to, and explained by reference to, its external power position. The link between statism and neorealism is thus readily apparent. The emphasis, despite differences in levels of analysis, is on structural factors defined largely in terms of the prevailing distribution of power.

It is however, paradoxical that such a basic category of (realist) international relations theory - the state and its interests and preferences - has largely been taken for granted. The weakness of so many statist and neorealist theories is not necessarily an excessive emphasis on the state, but rather that the state has not been taken seriously enough as an historically complex form of political organization.

74. For a fuller discussion, see Evans, Reuschemeyer and Skocpol (eds) Bringing the State Back In (Cambridge: CUP, 1985) `Conclusion'.

75. Thomas Biersteker, 1990, pp. 477-492.

76. Jackson and Rosberg note that by Weber's definition of the state (i.e., a corporate organization that has a monopoly of force within a given territory under its jurisdiction) a few of Africa's governments will not qualify as states, at least not all of the time. This is because these governments cannot always claim to have a monopoly of force throughout their jurisdictions. E.g., Mozambique, Zaire and until recently,Angola. See R. Jackson and C. Rosberg "Why Africa's Weak States Persist: The Empirical and the Juridical in Statehood" World Politics 35, 1, (Oct, 1982) pp.1-24.

77. Joel S. Migdal, 1987, p.398. (Emphasis added). Analytic models developed and applied in the context of Western societies, where the state's role in making and enforcing rules about public affairs is taken for granted, tend to be biased in the assumption that the state is necessarily preeminent in the making and enforcing of rules. To accept this notion however, is to lose sight of the major types of conflict in many underdeveloped societies. The kinds of conflicts in such societies are conflicts over who has the right and the ability to make rules to guide social behaviour. Such conflicts are not merely over specific policies or laws, but are conflicts that challenge the legitimacy of the state and its power and authority.

78. See Alexander Wendt and Raymond Duvall, "Institutions and International Order." in Czempiel and Rosenau (eds), Global Changes and Theoretical Challenges (Lexington, Mass: Lexington Books, 1989) pp. 51-74.

As numerous critics of neorealism, including among others, Keohane (1986, 1988, 1989), Nye (1988), Ruggie (1986, 1989) and Katzenstein (1989) have noted, one of the major problems in the analysis of change (at whatever level) is that neorealism does not have an explicit theory of the state. State interests and preferences are given by assumption and held to be constant. Thus it is that realists have to retreat into a "fall back" position, i.e., that given state interests (whose origins are not specified in the theory) patterns of outcomes in international politics will be determined by the overall distribution of capabilities. (Keohane, 1986). For a fuller discussion, see Peter Katzenstein, "International Relations Theory and the Analysis of Change" in Czempiel and Rosenau (eds), 1989, pp.291-305. See also John G. Ruggie, "International Structure and International Transformation" in ibid, pp. 21-36. See also the critique of neorealism in Robert Keohane (ed) Neorealism and its Critics (New York: Columbia, 1986).

CHAPTER TWO

THE ANALYTIC FRAMEWORK

The objective of this study is to explain why and how the government of Ghana came to understand or recognize which new policies were needed, and how it was able, politically, to implement them.

Three central questions form the core of the approach:

1) What foreign economic policies did the PNDC pursue prior to 1983, and what was the extent and the significance of the subsequent changes made?

2) Why were the new policies adopted?

3) How were the new policies identified and implemented by the PNDC, and how was the government able to manage political costs and risks to enhance the sustainability of the adjustment programme?

The following discussion presents an outline of how the research problem will be developed to achieve the stated objectives.

The "What" Question: The `Dependent' Variable.

Foreign economic policy is defined as the range of policy actions undertaken by the government of a state to control economic transactions across national boundaries and in order to regulate the domestic macroeconomy. Such transactions are important in all countries, but vital in the case of developing countries.[1] In such countries, it is not uncommon for a sizeable proportion of the economy to be dominated by the external sector, and financial transactions tend to be even more important with an equally large percentage of capital equipment coming from abroad.

The heart of foreign economic policy thus lies in domestic economic structures and relations, and indeed, the distinction between the `foreign' and `domestic' is largely artificial. For most countries, particularly developing countries, issues that are ostensibly domestic (e.g., employment, inflation, distribution of income, growth, etc) are inseparable from issues that are ostensibly `external' (e.g., the exchange rate, foreign trade and investment). External transactions thus have a tremendous leverage on domestic factors that are central to the political objectives of any regime. Foreign economic policy, therefore, is considered to be the `foreign' component of an overall development strategy.[2]

As far as the foreign economic policies of African countries are concerned, the key component is foreign trade. Perhaps no other issue-area in economic policy making is as affected by political considerations as the area of foreign trade. The importance of foreign trade measured in terms of its impact on domestic variables central to the political objectives of any regime, has been extensively documented.[3] The small size of the economies of African countries means that trade plays an important part in their development strategies, even for those countries whose long-term objective is to reduce their vulnerability to the international economy.[4] For these reasons, in Ghana, as elsewhere, decisions regarding foreign trade have been strongly influenced by domestic and international political considerations that have had little regard for traditional economic concepts and principles such as comparative advantage and factor endowments.

In this study, the `dependent' variable which will be observed and measured is the range of actions taken by government with respect to foreign trade and exchange and the management of the balance of payments. The major components of trade policy include exchange rate adjustments, tariff and tax structures, import control mechanisms, export policies, domestic price controls and subsidies, and a variety of macroeconomic policies relating to the balance of payments. Together, these measures affect the relative price situation of any given country vis-a-vis its major trading partners.

The indicators which will be used to observe changes or variations in trade and exchange policy as defined above include: a) Official exchange rate valuations and the nature of the exchange rate system (i.e., whether it is fixed or determined by market prices); b) the types of price and other non-price incentives to exporters (e.g., producer price increases, subsidies) and modifications in trade taxes and import controls.

Trade and exchange policy can vary from a very tightly controlled trade/exchange regime on the one hand, to a liberal trade/exchange regime on the other. In the former, the `administered' trade/exchange regime, exchange rates are fixed by the government (usually at artificially high rates) and prices paid to producers of export commodities are kept well below the world market prices (which in effect amounts to a tax on the producers). Also, the government maintains control over all foreign currency transactions through, for example, the granting of special import licences.

In the liberal trade/exchange regime, exchange rates are determined by market forces and thus fluctuate to reflect variations in the country's relative price situation vis-a-vis its trading partners. Producer prices for export commodities are determined by world market forces, and foreign currency transactions are not controlled by the government. The type of trade/exchange policies a government adopts reflects its overall macroeconomic policy and the liberal trade/exchange regime is usually, although not exclusively, associated with a programme of Stabilization and/or Structural Adjustment.

In the case of Ghana, there was considerable variation in its trade/exchange policies, from an initial very tightly administered trade/exchange regime in 1982, through various degrees of liberalization between 1983 and 1987, to what by the end of 1989, emerged as a very liberal trade/exchange regime.

The PNDC `revolution' of December 31, 1981, occurred at a time when the Ghanaian economy was undeniably in a critical state. Initially, the PNDC did not have an overall economic programme and it was not until December 30, 1982, a full year after the coup, that the PNDC announced its "Programme for Reconstruction and Development" (PFRD).[5]

This four-year programme was intended to be the initial phase of a nationalist strategy of reconstruction corresponding to the aims of the `revolution'. Before this strategy could be implemented, however, it was modified and eventually replaced altogether by an "Economic Recovery Programme" (ERP) launched in the government's April 1983 budget.

The ERP was the product of the negotiations that were formalized between the PNDC and the IMF in October 1982, and was implemented in two phases. The first phase, ERP I, which began in April 1983, presented a one-year Stabilization programme which was followed by a three year medium-term adjustment programme (1984-86). It was during this period that the liberalization of trade and foreign exchange transactions began.[6] The second phase of the recovery programme (ERP II) launched in the 1987 budget, spanned the period 1987-1989. The ERP II was the Structural Adjustment phase with greater emphasis on structural and supply-side problems. The liberalization of trade and exchange was completed during this period.[7]

Since the primary concern of this study is with explaining changes in trade/exchange policy and with identifying the conditions that enhanced the sustainability of these policies, there are, in effect, two interrelated dimensions of the dependent variable that are the focus for explanation:

1) Variation in the content of the policies over time (the

changes in the substantive aspects of the policies); and 2) the implemention of the policy programme over time (sustainability).

Thus, two interrelated methodological issues need to be clarified. The first is to specify what constitutes a change in foreign economic policy and how it will be observed and measured, and the second is to specify what is meant by sustainability of these policies over time.

On the first issue, Charles F. Hermann (1990), offers some useful suggestions. He identifies four graduated levels of change in policy. The first, `adjustment' change, occurs in the level of effort and/or the scope of recipients. What is done, how it is done, and the purposes for which it is done, remain unchanged. The second level of change is `programme' change. This occurs when changes are made in the means or methods by which a goal or problem is addressed. What is done and how it is done change, but the purposes for which it is done remain unchanged. The third level of change is `problem/goal' change. This occurs when the initial problem or goal that the policy addresses is replaced or forfeited. In this level of change, the purposes/goals as well as the means/methods are changed. The highest and most extreme level of change in foreign policy is the `international orientation' change. This involves a redirection in a country's entire orientation towards world affairs. Unlike the other levels of change, which are largely issue-specific or directed at a particular set of actors, orientation change involves a basic shift in the country's international role and activities.[8]

This typology of different types or degrees of change in policy is, with suitable modifications, useful for identifying the sources of change in policy, and particularly for identifying the role of learning in policy change. This will be explained in section two below.

For there to be a change in foreign economic policy, there must be an existing policy. It is thus necessary to establish a base-line against which subsequent variation can be observed and measured. In the case of Ghana, the decision by the PNDC, in early 1982, to maintain a tightly administered trade and exchange system will provide this basis.

For the whole of 1982, despite (or because of) the absence of an overall macroeconomic programme, the PNDC maintained a very tightly administered trade/exchange regime. The official rate was kept artificially high and as a result, the real exchange rate appreciated strongly and a flourishing black market appeared. Indeed, by 1983, it is estimated that the black or parallel market rate (cedi to the dollar), was 22 times the official rate, giving Ghana one of the most seriously distorted exchange rate regimes in the whole of Africa.[9] This decision to maintain an overvalued official rate had a direct impact on the country's external trade - export earnings declined while import volumes rose. The producer prices of the country's major export, cocoa, fell drastically, such that by 1983, they were 1/3 of their 1970 level.

The first period of observable variation in Ghana's trade and exchange policy was between April and October, 1983. During this period (the Stabilization phase of the IMF-supported ERP I) the national currency, the cedi, was devalued by 991% (from 2.75 cedis to 30 cedis to the dollar).[10] These devaluations represented a major turnaround for a government that had earlier rejected devaluation as a policy option since it was seen as an IMF-inspired tool to open up the country to "capitalist exploitation."[11]

The next period of observable change in Ghana's trade and exchange policy was between September, 1986 and April 1987. For example, it was during this period that the PNDC first introduced a two-window system for exchange rates. Under this system, certain preferred transactions, mostly governmental, were at the more favourable fixed rate (C90 to US$1), while rates in the second window, which were determined by auction, fluctuated according to market forces (the rates fluctuated between c153 and c162 to the US$).[12] In February 1987, with the commencement of the ERP II, the two-window system was unified with rates determined solely by auction.

Thus, the trade and exchange regime in Ghana was gradually modified between 1983 and 1990, with an initial large devaluation followed by periodic adjustments. By the end of 1989, the system was almost fully liberalized.

There are, therefore, clearly discernible periods of variation in trade and exchange policy, and these periods will be the focus for comparison and explanation. Beginning with the base line of ke foreign economic policy decisions made in 1982, the sequenced analysis will examine the changes in these policies that occurred with the commencement of the ERP I between April and October, 1983, then proceed to examine the subsequent changes in these policies made with the commencement of the ERP II in February, 1987.

On the second dimension of the dependent variable, sustainability is defined as the ability of a government to adhere to a policy programme over a specified period. In discussing sustainability, it is useful to distinguish implementation of the policies from the outcomes of the policies. In other words, a policy programme includes targets and the instruments and conditions that are designed to achieve those targets. Identifying the conditions for sustainability requires the analyst to examine the factors that help or hinder the implementation of policy instruments and conditions to achieve targets, over the duration of the programme.

On the other hand, assessing outcomes requires an in-depth evaluation of the instruments, conditions and targets themselves and/or an assessment of their effects on the economy. Such an undertaking is outside the scope of this study. Thus, although it is difficult in practice to separate the implementation of policy from its outcomes, and indeed, outcomes affect implementation and vice-versa, conceptually and methodologically, the distinction is useful.

Sustainability, then, is defined as the ability of a government to adhere to and implement its policy programme over a specified period. By this definition, Ghana can be considered a case where the government successfully sustained its policy programme. After the initial major redirection in policy in 1983, the PNDC was able to adhere to its new policy programme for the duration of ERP I (1984-87) and ERP II (1987-89), and successfully implement the instruments. (See table one).

<u>Table 1</u>
<u>The Policy Programmes of Ghana and Zambia, 1981-1990</u>.

	Policy Programme and Duration	Implementation
<u>Ghana</u>		
ERP I {	SBA 8/83-8/84	completed
{	SBA 8/84-12/85	completed
{	SBA 10/86-10/87	completed
ERP II{	EFF + SAF* 11/87-11/90	completed
{	SAL 4/87	
{	ESAF 11/88-11/91	completed
<u>Zambia</u>		
	EFF 5/81-5/84	cancelled (8/82)
	SBA 4/83-4/84	completed
	SBA 7/84-4/86	cancelled (2/86)
	SBA 2/86-2/88	cancelled (5/87)

SBA: Stand-by Arrangement; EFF: Extended Fund Facility; SAL: Structural Adjustment Loan; ESAF: Extended Structural Adjustment Facility; SAF: Structural Adjustment Facility
* Converted into an ESAF.

Sources: IMF, <u>Annual Reports</u>, 1980-1988; World Bank, <u>Annual Reports</u>, 1980-88. Ishan Kapur, et.al, <u>Ghana: Adjustment with Growth</u>, 1991.

In comparison, the adjustment efforts of a country like Zambia, represents a case where the government failed to sustain its policy programme. After launching its reform programme in 1981, the government of Zambia failed to implement instruments and achieve targets. This resulted in cancellations by the IMF for non-compliance with the conditions of the loans and facilities that had been negotiated. Finally, after a series of strikes and riots in 1987, the overall reform programme effectively collapsed and was terminated by the government.[13]

The Explanatory Variables.

The "Why" Question: The Political Economy of Policy Choice.

The review of dominant approaches to the analysis of foreign economic policy suggests that a wholly systemic or domestic level approach will be inadequate to explain the factors that were instrumental in producing change in Ghana's foreign economic policies. This makes it necessary to cross levels of analysis and specify the linkages among variables at the different levels. The problem thus becomes one of determining the amount of explanatory weight that is to be accorded to either system level factors or domestic level variables and of specifying how these factors relate and interact.

The theoretical approach that will be employed will be a "domestic structures" approach (Katzenstein, 1977) modified to take into account the constraints imposed by dependency structures and relationships.[14] The primary unit of analysis is the national regime and the thrust of the explanation is directed at determining how external and domestic constraints and incentives, generated by economic performance, affect the interests and preferences of key actors, their goals and stratagems, and the capabilities they employ in pursuit of these goals.

Foreign economic policy has been broadly defined to include the range of policy actions undertaken by the government of a state to control economic transactions across national boundaries and in order to regulate the domestic macroeconomy. Such policy is considered to be purposeful action by authoritative decision makers (or their representatives) designed to address some problem(s) and pursue some goal(s), which although directed at foreign entities, has important domestic implications.

It was noted earlier that policy change occurs in different degrees. The typology provided by Hermann (1990) can be modified to encompass two types of change: a) Policy change that involves only a change of means but not of ends (means change); and b) Policy change that involves a change of ends as well as of means (goal/problem changes). The key to the analysis of the role of learning in policy change, therefore, lies in the relationship between means and ends.

<u>Policy changes resulting from learning</u>: Of the two types of policy change identified above it is the problem/goal changes (i.e., changes that involve both a change of means and ends) that are associated with the occurrence of learning.

Learning is defined as a process in which policy makers match means and ends in more effective ways to achieve the goals they desire and/or to solve problems.[15] This definition of learning is instrumental. The focus is on identifying whether, in the process of arriving at a decision to redirect policy, policy makers change their beliefs, goals and/or understanding of the problem. It is in respect of the content of the acquired beliefs and understandings of the policy problem by policy makers that the substantive dimension of learning enters the analysis. As noted in the previous chapter, with substantive learning, the concern is with what was learned and this can only be determined empirically.

Policy change resulting from learning must entail: a) a redefinition of the policy problem; and/or b) a reevaluation of the goals the policy is designed to achieve as a result of, c) the incorporation or adoption of new beliefs/knowledge (or the achievement of a better understanding) about the policy problem into the definition of interests that motivate policy behaviour.

These are the empirical criteria that will be used to determine whether the policy changes undertaken by the PNDC were the result of, or were accompanied by, learning.

Policy changes that do not involve learning: Changes in policy that involve only a change of means but not of ends are changes that do not result from learning. Such policy changes are adaptive changes in which policy makers are adjusting policy to a changed domestic and/or external environment without a preceding or corresponding redefinition of the problem, goals or of beliefs. Such policy changes could, for example, result from compliance, in which policy makers are simply adjusting policy in response to the dictates of dominant external interests.

There are, then, several possible sources of change in foreign economic policy, not all of which are associated with the occurrence of learning. To sort out the influence of these different factors on policy change and to accurately judge the possible role of learning, the analytic framework will involve three steps:

1) specify the nature and the dimensions of the policy problem confronting policy makers;

2) specify the impact/consequences of the problem (costs and incentives) and how this is communicated to policy makers;

3) specify the impact of the problem on interests and objectives and on the definition of the policy problem, and the conditions under which such information is most likely to effect change.

The discussion below briefly elaborates on how this framework will be applied to the analysis of Ghana's policies.

Identification of the Policy Problem and Specification of Consequences.

To identify the sources of change in Ghana's foreign economic policy, a useful starting point will be to examine in detail the dimensions of the acute economic crisis the country faced in 1982 and 1983, and then proceed to examine the consequences generated by the crisis for the political objectives of the PNDC. Three sets of consequences, generated by economic performance (the policy problem), can be identified: one external and two domestic.

<u>External consequences</u>: A major external consequence of deteriorating economic conditions is to produce changes in the relationship between the actor and dominant external interests, in this case, bilateral and multilateral creditors and donors, including the IMF and the World Bank.

To ascertain the input of these external creditors and donors on policy, a distinction needs to be drawn and the linkages established, between the broader dimensions of the policy problem briefly described above, and the specific impact on policy emanating from the problem. In other words, the sources, type, and magnitude of the leverage of key external donors and creditors vis-a-vis the recipient, and their precise input into policy, need to be specified.[16]

The sources of the leverage of key external actors like the IMF and the World Bank derive from their central position as the principal intermediaries between creditors and debtors. Thus for any country requiring substantial external sources of finance to achieve basic economic and political goals, the `seal of approval' of these institutions is a prerequisite for the mobilization of international resources. This seal of approval is made conditional on the recipient undertaking adjustment measures and the types and magnitude of leverage varies according to the types of facilities and loans being requested.

Generally, the input of external creditors and donors on policy will increase the greater the need for external resource flows to achieve political and economic objectives. The precise impact of external factors on policy, therefore, cannot be accurately determined without prior knowledge of those political and economic objectives. Any attempt to do so by focusing only on the sources and types of leverage (IMF `carrots and sticks') in a bargaining relationship, can lead to premature conclusions about sources of change.

Domestic Consequences: The prevailing view of the policy making process in developing countries holds that individual and/or external factors are the most potent predictors of policy. It is argued that policy makers in developing countries face less bureaucracy, less competitive political structures and hence are less constrained than are policy makers in developed states. The insights from the literature review, however, suggest that this view is misleading at best, and at worst, it is an outright fiction. While it is acknowledged that domestic political structures and processes in most African countries are different from those in industrialized countries, the differences are qualitative not quantitative. In determining the domestic constraints facing policy makers in Ghana, therefore, the relevant questions are not how much bureaucracy or how many competitive political structures there are, but the types of bureaucratic and competitive political structures.

The view of the policy making process employed in this study sees policy makers as constrained by factors both within the state and between state and society. The approach differentiates analytically between state as structure and as agent. Building on neo-Marxist as well as neo-Weberian scholarship, the state is defined as a structure of governance and rule that defines, institutionally and legally, political authority in society.[17] It is also a concrete historical mode of distribution of power and privilege in society. The state, therefore, consists of two elements: a) the concrete institutions of order and governance (the bureaucracy, police, military, judiciary etc); and b) the particular model of governance or domination they enforce (either through coercion or through appeals to legitimacy) which finds expression in the political regime or government.

There is a thus a relationship between the state as a structure and the regime, or government, as the agent.[18] The state shapes both the interests and powers of government, but the state exists only insofar as it finds expression in governmental practices. Thus the behaviour of any government is conditioned (but not determined) by the state and the social structures of which it is a part.

The major theoretical observation that emerged from the literature review section on the state, pointed to the neccessity of disaggregating the state adequately to capture the relationship between state autonomy, strength and capacity. In this regard, the activities of the state are defined relationally, in terms of: a) its internal structures and relations (i.e., the capacities and cohesion of the political and administrative structures); and b) its relationship to the social structures in which it is embedded (i.e., the socio-economic support base of the regime). This relational view, which focuses attention on the interactions both within the state as well as between state and society, will provide a more satisfactory basis for a description of the relationship between autonomy, strength and capacity.

Thus two sets of variables that represent the domestic constraints (and incentives) on policy makers will be examined. These variables are: 1) The changes in the capacities and cohesion of the political and administrative structures of the state; and 2) changes in the socio-economic support bases of the regime.

With respect to the first, determining the impact of changes within the state on policy will require an examination of institutional change and capacities, the balance of forces within the ruling coalition, and changes in the roles and the relationship between political cadres and technocrats. With respect to the socio-economic support base, determining its impact on policy will entail an examination of the class basis of the regime, the shifts in the regime's support bases and in the balance of class forces in society, and in the types of exchanges or networks established between social groups and key actors and groups within the state (e.g., patron-client networks; class ties; and ethno-religious ties). Taken together, these two sets of variables should permit a fairly accurate represention of the domestic constraints and incentives on policy making.

In summary, the three sets of variables that represent potential sources of change in foreign economic policy are: 1) changes in the relationship between the government and dominant external interests; 2) changes in the capacities and cohesion of the political and administrative structures within the state; and 3) changes in the socio-economic support bases of the regime. These three variables, which represent the major channels through which information about the policy problem (economic conditions) is communicated to policy makers, are the primary sources of change in foreign economic policy.

The Definition of the Policy Problem: Learning or Compliance?

The effects of these variables on policy is not direct but is contingent on the impact they have on the goals, interests and the capabilities of key actors in the regime to pursue their goals. The intervening variable, then, which mediates the effects of the three source variables on the outcome, foreign economic policy, is the way the policy problem is defined by key actors within the regime.

The general idea is that the way a government defines the policy problem is a function of its goals, interests and ideology (political agenda) and the patterns of costs and incentives (in relation to the agenda) generated by the three source variables identified above. Goals and interests, therefore, are not necessarily fixed but are formulated, reevaluated and reordered in response to changes in these costs and incentives. It is in this sense that the relative weighting of the three source variables in terms of their importance in shaping the direction of policy, is contingent on the impact they have on the way in which policy makers define the policy problem.

Propositions and Hypotheses.

In the case of Ghana, the hypothesis is:

Of the three sets of consequences generated by economic conditions, it was the domestic impact and in particular, the changes in the capacities and cohesion of the political and administrative structures within the state, more so than external leverage, that provided the greatest incentives for change.

In this regard, the evidence suggests that by late 1982, several months before the commencement of the ERP I, the domestic consequences generated by economic conditions had the greatest impact on the goals, interests and capabilities of the regime and hence on the way in which the policy problem was defined. It was during this period that the government in effect, came to recognize the necessity of some form of adjustment.[19]

Domestic consequences, including among others, a crucial shift in the balance of power within the regime in the wake of several coup attempts, and an institutional realignment within the state that led to the ascendancy of a small cadre of competent technocrats had the greatest impact in shaping the way the policy problem was defined.

Ultimately, it was the precipitous drop in production in all sectors of the economy, the foreign exchange squeeze, and the collapse of the state's fiscal basis, that led to the recognition by several members of the PNDC that the state could not sustain the level of involvement in the economy of its predecessors. These factors provided the greatest incentives for change. And it was this recognition (learning?) that led to the eventual acceptance of the IMF-World Bank prescriptions.

This is not to suggest that external agencies like the IMF had no influence in the PNDC's decision to change policy. They did. However, as noted in the review of system level approaches to the analysis of foreign economic policy, focusing on bargaining power between the government of Ghana and the IMF in an asymmetric dyad, which was clearly biased in favour of the latter, can lead to premature conclusions about the sources of change. Thus the mere fact that Ghana, faced with a rapidly deteriorating economy and with limited external resources, turned to the IMF for support, does not necessarily imply that the policies were imposed unwillingly.

IMF pressure, then, although instrumental, was not the key factor determining policy change. The relevant question is: would the government of Ghana have changed policy in the absence of external pressure? The answer is an unqualified `yes'. The negotiations with the IMF, which were initiated by the PNDC, would not have commenced had there not been prior recognition on the part of the PNDC of the need for reform and a recognition of the necessity of at least some form of adjustment.[20] Thus although the PNDC would have changed policy direction in the absence of external intervention, the adjustment formula that was eventually adopted was strongly influenced by the IMF and the World Bank. In addition, the continued support of these agencies was crucial to the implementation of the policies.

Establishing that external pressures were not the only or the major source of change in policy does not necessarily establish that learning on the part of the PNDC was a key factor either. The importance of the distinction between external and domestic sources of change in policy stems from the proposition that the occurrence of learning is shaped by the relative weighting of external and domestic factors in the decision to redirect policy. The second major hypothesis is:

If the policy change results primarily from external pressures, then it is unlikely that learning will occur. Such changes are adaptive changes (compliance) because they are unlikely to be preceded or accompanied by goal/problem redefinition and changes in beliefs. Conversely, if the primary sources of change in policy are in response to domestic factors, then learning is more likely to occur.

Thus in the case of the PNDC, to determine if its policy changes, primarily in response to domestic factors, stemmed from learning, we will have to look for evidence of changes in the way the policy problem was defined by key actors. Specifically, the evidence will have to show that the decision to redirect policy was preceded or accompanied by: a) a reevaluation of goals on the part of key policy makers; and/or b) a redefinition of the nature of the economic problems confronting the country; and c) the incorporation of new beliefs about the policy problem into the definition of interests that motivate policy behaviour.

Viewed from a broader historical perspective, the economic policies pursued by the PNDC were not necessarily new. A liberal economic ethos has always been present in economic policy making in Ghana but has been kept in check by the political imperative to extend state control over the economy.[21] Some of the key architects of the PNDC's ERP were involved with previous governments that had attempted economic liberalization.[22] What distinguishes the PNDC's policies, however, is the speed with which the changes were undertaken and the rigour with which the policies were implemented.

As will be shown in later chapters, the history of economic policy making in Ghana has been characterised by a tension between state allocation and distribution of resources on the one hand, and market allocation and distribution on the other. This conflict has in part been ideological, but more importantly, it has been a product of the different social bases of power and the different conditions for maintaining this power, of two groups within the Ghanaian state -the technocratic wing and the political wing. In many respects, therefore, the policies of the PNDC after 1983, can be seen as a triumph of this technocratic approach to economic management.[23]

It is for these reasons that the central thesis of this study states, as a counterfactual, that the decision to change policy in Ghana was not imposed unwillingly. Instead, prior to the involvement of the external agencies, there was a recognition of the need for economic policy reform within the highest circles of the ruling coalition. Verifying this proposition would be impossible without the intervening variable. Thus, to identify accurately the sources of change in policy, it is necessary to examine who the key players and groups were, what their interests were, what the transnational linkages were, how they gained ascendancy, what resources were mobilized, and how this transformed the policy preferences of the ruling coalition.

<u>The "How" Question: The Political Economy of Implementation</u>.

The major economic reforms contained in a programme of structural adjustment, are primarily designed to reduce the role of the state in the economy. The transition from administrative allocation to market allocation involves significant social costs, produces winners and losers, entails significant political risk, and thus requires careful political management.

<u>The Management of Political Costs and Risk</u>.

Political costs: The social and political costs engendered by adjustment are not evenly distributed in society. While in the long term the costs (and benefits) might be distributed more evenly, in the short term, managing the uneven distribution of costs requires a careful assessment of the gains and losses, the winners and losers, and the mobilization of the winners in support of the policies.[24]

Political Risk: As used here, risk refers to the difficulties of predicting and thus controlling the costs of adjustment.[25] Risk thus arises from uncertainty over the short and long term costs and benefits of adjustment. Reducing risk thus requires that goverments reduce uncertainty by weighing the potential benefits of the policies against the social costs, in the light of their understanding of the policy problem and their goals.

For example, the relative price changes (currency devaluations) that accompany the Stabilization phase of adjustment alter the position of socio-economic actors vis-a-vis the market. While some groups may benefit (e.g., farmers) from the relative price changes, other groups (e.g., small businessess, fixed income earners) may experience declines in income. Also, the change in allocative mechanisms from state to the market that accompanies the liberalization of trade (e.g., elimination of subsidies), reduces the ability of the regime to influence the activities of significant socio-economic actors which may ultimately undermine its ability to mediate conflict in civil society.

In managing the transition from administrative allocation to market mechanisms, a regime is, in effect, attempting to redefine critical aspects of the relationship between state and society. How political costs and risks are managed during this transition, therefore, will determine whether the government will be able to sustain its policy programme.

Propositions and Hypotheses.

The ability of a government to sustain major economic reforms lies in the extent to which that government is able to reshape domestic political structures, both within the state and in society, in order to contain political costs and reduce risk. And the ability of a government to reshape domestic political structures to effectively manage political costs and risk, is a product of the interaction of the three source variables (structural factors) on the definition of the policy problem (leadership factors).

As far as structural factors are concerned, the literature on the politics of adjustment suggests that strong support bases for the regime, well-developed state capacities and administrative subsystems, etc, are the key factors shaping implementation of policy. Ghana, however, presents a bit of a paradox in that the regime did not have a well-institutionalized support base, and state capacities were generally in disarray. How, then, was the PNDC able to implement its policies?

It was noted earlier that any meaningful discussion of state capacities or `strength' cannot be divorced from the historical context, the issue-area and the different roles. In other words, the relevant question to ask in respect of state capacity is, capacity to do what and in what historical context? A state at different historical periods may possess greater capacity for extraction, or for regulation, or planning, etc.[26]

In the case of Ghana, the hypothesis is:

The key structural factor that facilitated the implementation of the adjustment programme was the degree of autonomy of the regime.

Although the state was in disarray and was thus generally `weak', the relative autonomy of the PNDC regime enhanced the capacity of the state to adjust by: a) increasing the flexibility in decision making structures to respond to altered signals and resource availabilities, and b) widening the `political space' within the which the regime could maneuver to shift its basis of support at various stages in the adjustment process to cultivate the support of the winners and minimize the influence of the losers.

Thus in the case of Ghana, a particular configuration of the source variables combined to permit the regime a considerable degree of autonomy. The sources of this autonomy were: first, the debilitation of the state, a consequence of prolonged economic deterioration, that severely eroded the power of the traditional bureaucratic and political organizations; second, the fragmentation and marked degree of societal alienation and disengagement from the state, also a consequence of prolonged economic deterioration, that eroded the ability of organized social groups to mobilize political resources; and third, the multifaceted composition of the PNDC itself, which was backed by a loose alliance of various groups which maintained a considerable degree of autonomy from each other and from the regime.

Structural factors, however, are not sufficient to explain how the PNDC was able to sustain its policy programme. The critical factor in explaining implementation is not so much the degree of political space available, but rather what is done with the space, and it is here that learning becomes prominent. The hypotheses are:

The way in which the policy problem is defined by leadership will condition the level of commitment to the adjustment programme and the kinds of resources mobilized to manage political costs and risk.

The effective management of costs and risks requires that the definition of the policy problem be accompanied by learning.

These hypotheses suggest a linkage between the type of change in policy, the process through which the policies are changed, and the ability to implement those policies. The general idea is that problem/goal changes in economic policy which are preceded or accompanied by a process of learning, can be more readily sustained than means changes, which are not accompanied by learning.[27]

To ascertain the role of learning in policy implementation, in addition to the three criteria specified earlier for identifying the occurrence or non-occurrence of learning in policy change, two more criteria are necessary. First, there must be evidence of consensus-building. That is, the relevant actors (key policy makers, top bureaucrats, etc) must build a consensus on the direction of policy. Second, there must be evidence that changes in behaviour are performed according to rules and regulations that mark a departure from preexisting practice. These additional criteria shift the level of analysis away from individuals and groups in government, to learning at the institutional level.

In the case of the PNDC, although the regime was not able to cultivate widespread public support for the adjustment programme, there is evidence that learning enabled the regime to win acceptance by distributing costs in a way consistent with public perceptions of equity.[28] This was aided by the considerable degree of autonomy of the regime and by the widely-held belief in the personal integrity of the regime's leader, Jerry Rawlings.

The importance of learning also surfaces in the design of the adjustment formula itself. Within the broad parameters established by Fund and Bank conditionality, there is some room for maneuver, however limited. In the case of Ghana, the early recognition by the PNDC of the need for adjustment aided in the negotiations with the external agencies. Thus the adjustment formula agreed upon in 1983 that formed the basis of the ERP, combined elements of the PNDC's PFRD and the standard IMF and World Bank prescriptions for Stabilization and Structural Adjustment.

Learning could also be a key factor influencing the level of commitment to the adjustment programme on the part of the external agencies and creditors. After initial hesitation, the PNDC was able to attract considerable external support for its programme. Ghana was among the first recipients of the Fund's newer facilities for adjustment (the SAF and the ESAF). Could the introduction of these newer facilities (which imply a recognition of the inadequacies of its preexisting facilities for adjustment) be indicative of some learning in the IMF?

The World Bank in particular, appeared to put its credibility on the line with Ghana. After a series of failed adjustment programmes throughout Africa, it appears the external agencies were in desperate need of a `success story' to validate their approach to economic management.

Learning also enabled the PNDC to reduce risk by building a consensus on the direction of policy among the relevent actors, and devising new rules and procedures for implementing policy. What emerged in Ghana by 1984, was an alliance comprising members of the PNDC and technocrats within the state and in the IMF and the World Bank. This `transnational coalition', to borrow Stephan Haggard's term, formed the backbone of the government's economic policies and an ideological hegemomy was eventually created centred around economic liberalization. Thus although a coherent ideology was not a factor in the initial change of policy, and indeed its absence facilitated change, it was to become a key factor in sustaining the adjustment programme.

Conclusion.

The analytic framework elaborated in this chapter should permit a fairly accurate identification of the sources of change in the PNDC's foreign economic policies, the factors that enhanced the sustainability of these policies, and of the possible role of learning in both policy change and implementation. The way in which learning has been defined and operationalised has deliberately raised the empirical threshold to guard against identifying learning where none occurred.

The next chapter, chapter three, turns to the historical record with a view to identifying the evolution of constraints on economic policy making in Ghana and the types of economic policies pursued by previous governments from 1957 to 1981.

NOTES

1. See Bruce E. Moon, "Political Economy Approaches to the Study of Foreign Policy" in Hermann, Kegley and Rosenau (eds) New Directions in the Study of Foreign Policy (Boston: Allen & Unwin, 1987).p. 41.

2. Moon, 1987, ibid.

3. See for example, Margaret Keller et.al, Issues and Developments in International Trade Policy. Ocassional Paper # 63 (Washington, D.C.: IMF, 1988). J. Dirck Stryker et.al, Trade, Exchange Rate and Agricultural Pricing Policies In Ghana. (Wash: World Bank, 1990; UNCTAD, Trade Control Measures and Developing Country Trade. (Geneva: UNCTAD/ECDC, March 2, 1988); IMF, Annual Report on Exchange Arrangements and Exchange Restrictions. (Wash: IMF, 1988).

4. See Stephen R. Lewis, jr. "Africa's Trade and the World Economy" in Berg and Whitaker (eds) Strategies For African Development (Berkeley: U. of California Press, 1986) p.476.

5. See John Loxley, Ghana: Economic Decline and the Long Road to Recovery (Ottawa: North-South Institute, 1988). See also, Eboe Hutchful, "From Revolution to Monetarism" in Campbell and Loxley (eds) Structural Adjustment in Africa (London: Macmillan, 1989) pp.100-101.

6. PNDC Two Years . Accra, Ghana: Information Services, 1984. p. 24.

7. A Programme of Structural Adjustment Report Prepared for the Fourth Meeting of the Consultative Group for Ghana, Paris. Accra: May, 1987. p.i.

8. See Charles F. Hermann "Changing Course: When Governments Choose to Redirect Foreign Policy" International Studies Quarterly 34, 1, (March, 1990) p.5.

9. John Loxley, (1988) op.cit, p.6.

10. ibid, p.6.

11. See James Ahiakpor "The Success and Failure of Dependency Theory: The Case of Ghana" International Organization 39, 3 (Summer, 1985) p. 547.

12. Loxley, 1988, op.cit, p.12.

13. See Thomas Callaghy, "Lost Between State and Market: The Politics of Economic Adjustment in Ghana, Zambia and Nigeria." In Joan Nelson (ed), Economic Crisis and Policy Choice, pp. 257-319.

14. See Peter Katzenstein, "Introduction" and "Conclusion" in "Between Power and Plenty," International Organization, 31, (Autumn, 1977).

15. This definition of learning is adapted from Breslauer and Tetlock (ed), Learning in U.S. and Soviet Foreign Policy. (Boulder: Westview, 1991), and is a combination of what Telock calls the "efficiency definition" (pp. 35-38) and Haas's perspective. See Ernst Haas, "Collective Leraning: Some Theoretical Speculations". Chapter three of the same volume.

16. This amounts to drawing a distinction between dependency, as the absence of actor autonomy in relation to its basic goals, and dependence, as a bargaining relationship in an asymmetric dyad. See notes # 52 and # 53.

17. See Peter Evans, "The State and Economic Transformation" in Evans, Reuschemeyer and Skocpol (eds) Bringing The State Back In (Cambridge:CUP, 1985) pp.44-77. See also Alexander Wendt, "The Agent-Structure Problem in International Relations Theory" International Organization 41, 3, (Summer, 1987) pp.335-370.

18. See Crawford Young "The African Colonial State and its Political Legacy" in Rothchild and Chazan (eds) The Precarious Balance: State and Society in Africa (Boulder: Westview, 1988) pp. 29-30. See also Cardoso, F.H. "On the Characterization of Authoritarian Regimes in Latin America" in David Colier (ed) The New Authoritarianism in Latin America. (Princeton:PUP, 1979).

19. The period between mid-1982 and early 1983, therefore, was the critical period in which the PNDC had to calculate the relative costs and risks of alternative ways of achieving its political objectives. However, the government was still undecided as to whether the costs of restructuring the economy (and hence ensuring its survival) would be sufficiently eased by IMF support to warrant accepting the conditions that would be imposed. The decision to turn to the IMF was precipitated by a series of exogenous shocks in late 1982 and early 1983, including a severe drought and the forced return of about one million Ghanaians from Nigeria in February, 1983.

Although I have earlier argued that interests cannot be given by assumption and held to be constant, it is safe to assume that at a minimum, the PNDC sought its own survival. Unlike Rawlings' first incursion into Ghanaian politics in June, 1979, in which he explicitly stated his intention to transfer power to an elected government (and voluntarily did so after only three months in power), the PNDC had no such intention. It was in power to stay.

20. Hutchful (1989) argues that the adjustment formula that was eventually adopted in the ERP originated from three sources: the PNDC's PFRD, the IMF and the World Bank. See Hutchful "From Revolution to Monetarism." op.cit. p.104.

21. This argument is fully developed in chapter three which traces the history of economic policy making in Ghana from 1957 to 1981.

22. These included Dr. Kobina Erbynn who is presently the Chairman of the Ghana Investments Centre and Dr. J. L. S. Addo, a former Governor of the Central Bank.

23. This is not to suggest that senior decision makers were not narrowly self-seeking in the identification of interests that motivated their policy behaviour. Senior decision makers within the PNDC, and the technocrats who advised them were not necessarily motivated by altruism or a desire to promote the welfare of the national society, but were motivated by a desire to reproduce the conditions necessary for their power.

24. See Cadman Atta Mills, Structural Adjustment in Sub-Saharan Africa. World Bank-EDI Seminar Report # 18, (Washington, D.C: World Bank, 1989) pp. 21-23.

25. There is a considerable amount of ambiguity concerning the meaning of risk and its relationship to uncertainty. See Julius Gould and William Kolb (eds), Dictionary of the Social Sciences (UNESCO: Free Press, 1965) pp. 605-607. For an application of risk theory in economics to international trade, see Robert H. Bates, Philip Brock and Jill Tiefenthaler, "Risk and Trade Regimes." International Organization, 54, 1 (Winter, 1991) pp. 1-18.

26. See Thomas Biersteker, (1990), pp.477-492. As Biersteker notes, much of the disagreement about state capacities and strength exists because different aspects of state intervention are being discussed.

27. In the case of a country like Zambia, on the other hand, the changes in policy were not accompanied by learning. In contrast to Ghana, where the initial policy change was a problem/goal change, in Zambia, the external dimension was more instrumental in influencing the change of policy and as a result, the change of policy there was more a case of unwilling compliance. Zambia's initial policy change in 1981, therefore, was a change of means and was not a product of a redefinition of the country's economic problems and/or a reevaluation of goals and interests. This

eroded the commitment of the government of Zambia to adjustment and its ability to mobilize the necessary resources to effectively manage costs and risk.

28. See Hutchful, Structural Adjustment and Political Regimes in Africa. Research Statement Submitted to the SSHRC and the World Bank, 1990. (Mimeo). pp. 11-21

PART TWO

THE EVIDENCE

CHAPTER THREE

TRADE, EXCHANGE RATE, AND ECONOMIC POLICYMAKING IN GHANA, 1957-1981.

Introduction.

This chapter traces the history of economic policymaking in Ghana from 1957 to 1981. There are two main objectives: first, to identify the types of foreign economic policies pursued by regimes prior to the PNDC; second, to provide the historical context and the empirical basis for the analysis of the role of learning in shaping economic policy choices during the PNDC era, by tracing the evolution and impact of two fundamental constraints on the country's economic development, the foreign exchange constraint and the model of governance.

The chapter is divided into three sections. The first section briefly outlines the structure of Ghana's economy and the performance of major sectors since the early 1960s. Section two examines the historical evolution of economic and political constraints and the specific trade and exchange policy responses of successive governments from Nkrumah (1957-1966) to Limann (1979-1981). Section three, the concluding section, provides a theoretical analysis of the key factors that have shaped economic policy making in Ghana.

[Section One]

The Evolving Political Economy I: Economic Structure and Performance, 1957-1981:

The story of Ghana in the over three decades of its independence is one of bitter ironies. In 1957, the country's future looked bright. By African standards at the time, it had a relatively large reservoir of skilled manpower (although given the dismal record of colonialism in developing skilled manpower throughout the continent, this standard was very low). It was the world's leading exporter of cocoa, it produced 10% of the world's gold, it had a relatively rich resource endowment which included diamonds, manganese, bauxite and rich timber resources, and with a per capita income of $490 (in 1980 dollars), was the second highest in sub-Saharan Africa after South Africa.

By the early 1980s, however, per capita income in Ghana had fallen by 20%, real incomes by over 30% between 1970 and 1982, and real wages declined by 80% over the same period. Investment had slumped from over 20% of GDP in the late 1950s to 4% by 1982, and domestic savings from 12% of GDP in 1970 to 2% by 1982. Exports declined from 21% of GDP to 4% between 1970 and 1982 and real export earnings declined by 52%.[1] In addition, almost every social indicator of development, including levels of nutrition, had taken a turn for the worse. At the beginning of the 1980s, then, Ghana was in many respects a distillation of everything that could go wrong in the development of a country.

Economic Structure.

The economy of Ghana is characterized by a dualism inherited from the colonial period. There is an uneasy co-existence of two distinct sub-economies: a small capital-intensive modern sector involved in mining and industrial activities and a large traditional sector, with very weak linkages between these two sub-economies. Also characteristic of the economy is its vulnerability to trends in the international economy. This derives from a production system that is dependent on imported inputs, a dependency on primary exports for foreign exchange and, until recently, a very high ratio of imports and exports to GDP.[2] Throughout the 1970s, there was a continous secular decline in all major sectors of the economy. Perhaps most significant, given the country's import-dependent production systems, was the decline in the external sector.

The External Sector: In the years following independence, the economy was externally oriented and relatively open, with foreign trade occupying a central place. The economy has remained relatively open despite the decrease in the share of foreign trade in GDP. From a peak in 1965 when exports equaled 30% of GDP and imports 37%, foreign trade in Ghana steadily declined such that by 1981, exports as a portion of GDP equaled only 11% and imports, 14%.[3]

A prominent characteristic of the country's export structure is the dominance of agricultural and other primary commodities, a situation made all the more precarious by commodity concentration. Cocoa and cocoa products alone have accounted for over 60% of total foreign exchange earnings. Other main exports include timber (logs and sawn) and minerals (gold, diamonds, manganese and bauxite). Imports consist mainly of raw materials, manufactures, consumer goods including food and clothing, construction materials, fuel and lubricants.[4]

In the early 1950s, exports of goods and services exceeded imports by a comfortable margin, and this was a period when foreign exchange reserves were substantially increased. By 1957, however, the current account was in deficit and since then, weak export performance coupled with an expansion in the domestic demand for imports has produced a history of persistent and at times acute payments crises.[5]

The country's external payments problems were, by the late 1970s, expressed not only in terms of a deficit on the current account but by the degree of exchange rate overvaluation and its attendant price distortions, reduced import capacity, depleted foreign exchange reserves, mounting external debt, and soaring domestic inflation. Together, these factors created a situation in which foreign exchange for imports came only from export earnings (official and private capital inflows dried up as the economy worsened) and consequently as export earnings declined, the capacity to import also declined although the demand for imports at the official exchange rate remained high. Governments resorted to all kinds of gimmicks to restrict imports, including quantitative restrictions and special licences which only worsened the situation. By 1981, the volume of total exports amounted to only 40% of the 1970 level and the volume of imports declined to 51% of the 1970 level. The result of declining exports and imports was a chronic shortage of raw materials, spare parts and other much-needed inputs, which in turn had a detrimental effect on the export sector and other important sectors such as agriculture and industry.

Agriculture: In terms of composition of domestic product, by far the most important sector in the economy is agriculture. Although the share of agriculture in GDP fluctuated from year-to-year, it has remained on average around 50% from 1957 to 1981. The agricultural sector is also the largest employer in Ghana but this sector's share in the total labour force declined from 66% in 1957 to 53% in 1980.[6]

The agricultural sector comprises cash crop production, food crops and livestock, fisheries and forestry. Cocoa is by far the most important cash crop covering about 50% of the land under cultivation. The main food crops are cereals (maize, millet, rice and sorghum) and starchy staples (yam and cassava).[7] Agricultural exports are dominated by cocoa (96% of the total in 1980) and cocoa alone accounted for between 60 and 70 % of all exports between 1965-1980. Cocoa production, however, began to decline throughout the 1970s. From a peak of 538,000 metric tons in 1965, production declined to 394,000 metric tons in 1976 and

179,000 tons in 1983.[8] The decline in agriculture was also reflected in non-export food crops. Between 1970-1982, per capita food production fell an average 2.9% per year. Given the importance of agriculture generally and of cocoa specifically, the decline in the industry in the 1970s, had serious consequences for the overall economy.

Industry: This sector, which includes manufacturing, mining and construction also declined sharply between 1970 and 1981. As a percentage of GDP, industrial activity as a whole declined from 19% (at constant 1975 prices) in 1970 to 12% in 1980. The index of manufacturing production in 1981 was 63% of the 1977 level, capacity utilization was less than 25% in 1981, and the contribution of the manufacturing sector to GDP fell from 11% in 1970 to 6% in 1981. Mining and construction also showed this decline. In 1980, the output of the mining sector was one-half its output in 1971.[9]

Services: The decline in agriculture and industry, reflecting the overall decline in GDP during the 1970s was accompanied by changes in the type of economic activity in Ghana. The only sector in the Ghanaian economy that showed any growth in the 1970s was services. This, however, implied a shift from the productive sectors of the economy into government services and especially, into trading. Indeed, in the two years between 1979 and 1981, the share of retail and wholesale trade in GDP increased from 14% to 26%. As will be shown in section two below, a combination of factors, including government pricing and licensing policy, created a situation in which the most profitable economic activity in Ghana became the pursuit of economic rents by unscrupulous traders.[10]

The shift in the type of economic activity was also accompanied by a shift from the formal or official (monetary) economy to the parallel market economy.[11] Although accurate figures are not available, May (1985) estimates that by 1982, parallel market activity in Ghana had grown to 32% of GDP.[12] This indicated not only a withdrawal from the monetary economy towards the subsistence economy, but also an increase in illegal and parallel market activity.

[Section Two]

The Evolving Political Economy II: Political Constraints and Economic Policy Responses, 1957-1981.

As the preceding discussion has shown, throughout the 1970s, and indeed from as early as the mid-1960s, the economy of Ghana experienced an almost continous secular decline. What went wrong? Since the most visible symptoms of Ghana's malaise are economic, it is relatively easy, and tempting, to see it as primarily a result of (economic) policy failures. Such, until fairly recently, has been the dominant perspective of the international donor community.[13] In keeping with the central theoretical propositions outlined in chapter two [14] however, it is argued that although `bad' economic policies have played a significant role, these policies are themselves a reflection of deeper-rooted historical and political constraints. In Ghana as elsewhere on the continent, there has been a crisis of governance that is just as severe as the crisis of economic production. These two crises have been mutually reinforcing, each being a cause and an effect of the other.

The analysis below traces the evolution of this crisis of governance, through successive regimes from Nkrumah to Limann, by examining the character and role of the state and its relationship with socio-economic interests, domestic and external. For each government or historical period, the analysis details the economic policy responses, focusing in particular on the types and the effects of key policy instruments related to the balance of payments such as tariff structure, import and exchange controls, export policies, and domestic price controls.

Foreign Economic Policies Prior to 1966.

The government of the Convention Peoples' Party (CPP), which assumed power in an internal self-government arrangement with the British in 1951, pursued an essentially liberal economic programme during the period of decolonization, between 1951 and 1959. The economy at this time was centred on the cocoa industry, which was the most important source of government revenue and foreign exchange. High world market prices, following the commodity boom of the immediate post World War II period, provided windfall resources to the Ghanaian economy. This was also a period of significant political and socio-economic changes which would shape the character of post-independence political discourse in Ghana.

The 1956 elections, the third and final in a series of elections held between 1951 and 1957, all of which Nkrumah's CPP won, did more than pave the way for independence in 1957. These elections, together with the one in 1954, exposed the multiple rifts in Ghanaian society and established the pattern of intense intra-elite conflict that has bedevilled Ghanaian politics ever since.[15] To understand the roots of this conflict, it is useful briefly to examine the nature and character of the anti-colonial struggle in Ghana.

Historically, the roots of the intra-elite conflict can be traced to the colonial era. Like many other African countries, Ghana had for centuries experienced European imperialism, beginning with the early Portuguese traders in the fifteenth century and continuing after the establishment of a \`protectorate' over the then Gold Coast by the British in 1874.[16]

Politically, colonial rule in Ghana, despite the democratic pretensions of Britain, was authoritarian. The British intrusion into the Gold Coast was accompanied by the establishment of a military-bureaucratic state apparatus that was endowed with independent, externally-derived resources and that was capable of controlling production and exchange. The technological superiority of the British colonial state enabled it to regulate processes of existing social differentiation and to create new patterns of differentiation centred around the colonial state.[17]

The colonial system of government, euphemistically called `indirect rule' was anything but indirect. Although this system did preserve traditional authority (the chiefs), the effect was to alienate the people, not only from central government, but also from these traditional authorities. Indeed, the nature of colonial rule, and the fact that the colonial state was an alien imposition, created a peculiar perception of the state and of government as a foreign entity that endures to this day.[18]

To expand its political and economic base, the colonial state brought together diverse ethinic groups that had previously enjoyed some autonomy. Groups such as the Asante, Fanti, Ewe, Ga, Dagombe, etc, were supposedly `unified' under British rule. The colonial state thus became the arena in which groups and emerging social classes competed for access to resources and rewards. The indigenous elite, which was to spearhead the independence movement, exploited these ethnic divisions and this resulted in the division of the political movements along ethnic and class lines.

The anti-colonial struggle in Ghana had, until the late 1940s, been the preserve of small coastal-based intelligentsia under the banner of the United Gold Coast Convention (UGCC). In 1949, Nkrumah who had been a member of the UGCC broke away to form the Convention Peoples' Party (CPP). Although of similar class composition to the UGCC, at least in comparison with the rest of society, the CPP was composed mostly of a lower stratum of the emerging middle class - small shopkeepers, lower level government white-collar employees, teachers, etc - the so-called `verandah boys' who were disenchanted with the slow pace of reform.[19] Thus the differences between the CPP and the UGCC were in part ideological, with the former more radical in its demands for change, and in part class-based with the CPP representing the grievances of a younger, upwardly mobile stratum against the entrenched interests of the UGCC leadership.[20]

In addition to this class and ideological split, there was an ethnic and regional dimension which became open in the 1954 election. In addition to the CPP and the UGCC, which by then had become the Ghana Congress Party (GCP), five other parties representing regional and ethnic concerns, contested the elections.[21] The platforms of these parties ranged from demands for a federal structure to grant more autonomy to the regions to outright separation from the country.

Thus on the eve of independence, a single political community, in the sense of common aspirations and goals, and shared values and practices, did not exist (there were even sections of the elite who wanted to delay independence). Instead, what existed was a highly heterogenous society, that was only tenuously linked to the state.[22]

In view of these constraints, and to avoid any confrontation that might have delayed independence from Britain, the CPP modified its radical rhetoric and adopted a development model that followed the lines laid down by W. Arthur Lewis.[23] The state, according to this view, was to confine its intervention in the economy to the provision of essential social and industrial infrastructure and to create an investment climate attractive to foreign investors. In an effort to improve social and industrial infrastructure, the CPP turned its attention to capturing the revenues from cocoa. To this end, the Cocoa Marketing Board (CMB), which had been established by the British as one of several cocoa buying agencies, was granted a monopoly, although several local and foreign firms were granted licences to buy cocoa for a fixed fee per ton.[24]

The capture of the windfall from high cocoa prices had important implications. Government expenditures grew dramatically. Public expenditures increased by almost six times between 1951 and 1959. As a proportion of GDP, government expenditures rose from 7 to 18% over the same period.[25] Cocoa prices began to decline after 1957 as a result of increases in world supply stimulated by high prices of the post World War II period. At the same time, foreign investment had not reached the levels anticipated by the Lewis model. And by the end of the 1950s, negative terms of trade combined with increased expenditures, produced budget and trade deficits.

<u>The First Republic, 1960-1966</u>: By 1956, the CPP although largely

urban-based, had evolved into the only party that could claim support throughout the country. Its youthful, populist rhetoric appealed to minority groups. And in the 1956 election, it won 71 of the 104 seats in the National Parliament and thus became the the first government of the post-colonial state in March 1957.

Given the divisions that had surfaced in the pre-independence election, it is hardly surprising that one of the first priorities of the government of Nkrumah after independence, was to consolidate power in the state. This was to be achieved through the expansion of the administrative and coercive structures inherited from the British colonial administration which had had a virtual monopoly over the distribution of scarce resources. The constitution drafted at independence, which provided for a Westminster-style parliamentary system, however, was an obstacle. It had become evident that the political structures inherited from the British were lacking in their ability to effect social transformation. The enhanced expectations following decolonization, which increased the competition from social groups for limited resources, created increased pressures on the state.

Thus in 1960, Nkrumah introduced a new constitution that provided for increased power in an executive presidency, which was approved in a nation-wide referendum in April 1960. A second referendum, held in 1964, resulted in the creation of a one-party state. Thereafter, CPP rule in Ghana became more authoritarian and erratic.[26]

The 1960 and 1964 referenda were significant for two reasons. First, they reinforced a model of governance that placed the public sector at the centre of social mobility and access to resources while at the same time limiting this access; second, and as a corollary, they elevated bureaucratic structures to a central position in the allocation and distribution of resources.

With respect to the first, the CPP under Nkrumah, in his attempt to consolidate power, established selective channels of representation designed to exclude some sections of society and to coopt others. This was done through an elaborate network of patronage structures which served to selectively link specific socio-economic groups with the state.

The social structure of Ghana, as already noted, was extremely heterogenous with cleavages occurring around class and ethno-regional lines. British colonial economic policy did not permit the emergence of a full-fledged national bourgeoisie with an economic base independent of the state. Instead, dependence on the state had been nurtured during the colonial period, when, for example, land tenure policies were enacted to impede the growth of an indigenous land-owning class.[27] The nascent middle class thus came to rely on the state for access to economic resources and rewards, and proximity to the state became a condition for social mobility.

Decolonization did not eliminate the centrality of the state and the divisions within the emerging middle class, epitomized in the CPP - UGCC split, simply reinforced the notion that it was only through the state that economic opportunities could be realised. Thus as the euphoria of independence began to disappear, and the cleavages in Ghanaian society began to reemerge, opposition to the CPP began to crystalize. The most vociferous opposition came from the National Liberation Movement (NLM) the successor to the UGCC, led by Dr. Kofi Busia (who later became Prime Minister in 1969). Although this organization's support base was narrow, based in the Ashanti region, it derived its strength from support among cocoa farmers. In an effort to reasert its control and extend its influence, the CPP's response was to forge alliances with specific organizations and groups in society.

Prominent among these organizations was the United Ghana Farmers' Cooperative Council (UGFCC) which had been established in 1953 to provide services to farmers throughout the country. The CPP, however, turned the UGFCC into a wing of the party, declared it the only recognized farmers' organization in the country, and eventually granted the UGFCC a monopoly over all cocoa purchases in the country. By so doing, the CPP created an elaborate patronage network involving layers of farmers, brokers, agents, traders, bureaucrats and political cadres that not only extended its influence deep into the rural countryside, but gave it direct access to cocoa revenues.[28] Thus affiliation with the CPP, through an elaborate network of party-sponsored organizations, became a precondition for social mobility.

The attempt to expand the influence of the party necessitated an expansion in the structures and functions of the state machinery. Under Nkrumah, the government bureaucracy was expanded with the creation of new ministries, and the establishment of state-owned corporations. A vigorous indigenization programme was implemented and new graduates were recruited into the public service. The rationale was to use the public sector to reward CPP constituents and to assert control of the Party.[29]

Gradually, a dualistic structure emerged within the public service which saw the creation of a parallel bureaucracy centred around the party, which functioned beside the state bureaucracy.[30] This was an uneasy coexistence. Under Nkrumah, the notion of a politically neutral state bureaucracy was abandoned in favour of active politicization. This attempt generated opposition from the technocratic stream of specialist planners and administrators, the new bureaucratic elite, who resented the political interference.[31]

Thus an unintended consequence of Nkrumah's efforts to use an expanded public sector to effect social transformation, was the consolidation of a new technocratic stratum within the state structure, which would become a source of opposition to the CPP. As Roger Genoud (1969) has shown, the opposition from this technocratic elite to several of Nkrumah's policies, was one of the key factors in the coup that ousted the CPP in 1966.[32]

The Imposition of Controls on Trade and Exchange, 1961-1966: In many respects, the economic policies pursued by Nkrumah between 1951 and 1959, represented a tactical collaboration with the British in order to smooth the path to independence.[33] By 1960, with full political independence achieved, and with increased power in the presidency stemming from the 1960 republican referendum, the CPP felt it was time to radically transform the structure of the neo-colonial economy.

As noted earlier decolonization had increased the economic expectations of the people. Indeed Nkrumah himself had fanned these rising expectations by proclaiming, in 1949, that "if we get self government, we'll transform the Gold Coast into a paradise in ten years."[34] Ten years after achieving self government, however, Ghana had not been transformed into a paradise. Thus Nkrumah's dilemma was that of all nationalist leaders who have waged a successful struggle for independence: how to maintain the political momentum and satisfy the economic aspirations of the people?

The answer to this was to be a new development strategy that envisaged the creation of a socialist society. To provide substantive direction to Nkrumah's vision of social transformation, a brand of `African socialism' or `Nkrumaism' became the guiding ideology. This essentially envisaged rapid industrialization on the basis of import-substitution as the key to the economic transformation of Ghana.[35] Industrial growth, and thereby economic transformation, was to be achieved on the basis of a collaboration, or rather, competition, between the state and international capital with the state in control of all key aspects of the economy. Although this model was labelled `socialist', state-capitalism would have been the more appropriate appellation. And the inherent contradictions in such a strategy would be evident by 1965.

Key aspects of this model included:

(a) The creation of state enterprises, either wholly-owned by the state or as a joint-venture with foreign capital.
(b) Industrialization would take the form of export valorization and import substitution;
(c) industrial structure was to be capital intensive;
(d) foreign private capital was not to be nationalised or barred, but would be oustripped and eventually reduced to redundancy in fair competition with state capital.[36]

Of particular interest was the ambivalence towards the role of local private capital. During the 1950s an Industrial Development Corporation was established and various other measures were taken to promote and assist Ghanaian entrepreneurs but by 1961, Nkrumah had come to believe that there was little prospect of fostering an indigenous capitalist class capable of industrialising the country.

As Killick (1978) and Hutchful (1987) note, even had there been such a prospect, it is unlikely that the CPP would have actively encouraged the development of such a class, for reasons of both ideology and political power.[37] Nkrumah's socialism simultaneously asserted and denied the existence of classes in Africa.[38] Nkrumah was deeply suspicious of the potential threat a Ghanaian capitalist class could pose to his regime and is quoted as saying, "we would be hampering our advance to socialism if we were to encourage the growth of Ghanaian capitalism in our midst."[39] Thus policies were enacted that restricted Ghanaian private enterprise to small-scale concerns.

Indeed, all Ghanaian regimes since Nkrumah have maintained a degree of suspicion and ambivalence towards the development of indigenous capital with a power base independent of the state. The ambivalence towards local capital, and the dependency of the latter on the state that was fostered over time, created a policy dilemma for the PNDC in its adjustment efforts in the 1980's: how to fill the investment and employment vacuum created by the withdrawal of the state from the economy.[40]

To stimulate its industrialization programme, large-scale public investments were initiated by the CPP. However, falling cocoa prices, in part a result of expanded production in Ghana, and a rising demand for imports, resulted in a sharp increase in the current account deficit from $94.9 million in 1960 to $135 million in 1961. With the financial base for its investment programme eroded, the CPP resorted first to drawing down on reserves then to the imposition of controls on trade and exchange in 1961. These included both tariff and non-tariff measures such as import licensing, and exchange controls.

<u>Tariffs and Import Duties</u>: Prior to 1961, tariffs in Ghana were generally 23% ad valorem and were confined to revenue-raising tariffs on what were classified as `luxury' consumer goods

(tobacco products, alchoholic beverages, jewelery, etc) and to protection for a few selected new industries (e.g., furniture, roofing sheets, etc). As both foreign exchange and domestic expenditures increased with Nkrumah's industrialization drive, tariff rates were raised and more goods included both in an effort to discourage imports and to raise revenues.[41] The result was an increase in tariff collections from 15% of the value of imports in 1960 to 31% in 1966.[42] This tariff structure offered protection to, and helped stimulate the growth of, the import substitution industries and resulted in a shift in the structure of imports from consumer goods towards capital and intermediate goods.

In addition to tariffs, comprehensive import licensing and exchange controls were instituted in 1961, when it became clear that the high import duties arising from the increased tariff structure would be insufficient to reduce the current account deficit.

Import Licensing and Exchange Controls: Prior to 1961, the import regime in Ghana had been relatively liberal with a system of `open general' licenses that was non-discriminatory and non-restrictive. In 1961, faced with the emergence of balance of payments problems (the current account had been in deficit for four out of the past five years), import controls, through the use of `special licenses', emerged as a more certain way of keeping the volume of imports at acceptable levels while at the same time permitting the government to discriminate between alternative goods to reflect its own priorities.[43]

In line with its attempts to control imports, the CPP government also instituted exchange controls in 1961, and introduced its first foreign exchange budget in 1965. This foreign exchange budget, drawn up by the Minister of Finance in consultation with representatives of other key ministries and departments, attempted to forecast the availability of foreign exchange (from exports and foreign aid) for the coming year and to allocate this between the public and private sectors in line with the government's priorities.[44]

Although ostensibly designed for balance of payments purposes, import and exchange controls were instituted for other more political objectives. For example, the political case for import controls was expressed in an article in The Spark, the ideological journal of the CPP, which argued that import controls represented the `socialist' means of tackling the country's economic dilemmas and were the alternative consistent with Ghana's economic independence.[45] Also, Nkrumah's Minister of Industries, echoing the strong nationalist sentiment, argued 1962 that:

> Since December last year, Ghana has for the first time decided to exercise one of the weapons of economic sovereignty - import control! So long as this weapon is carefully and wisely wielded, our young and infant industries which are facing ruthless competition from long established and giant monopoly industries overseas, will be protected against dumping...[46]

In addition, a desire to minimise vulnerability to what was perceived as an exploiting imperialism through trade with the West, led to attempts to increase bilateral trade with what was then the Soviet Union and Eastern European countries. Import controls were seen as a way to increase the volume of imports from countries in what was then the socialist bloc with whom Ghana had recently signed bilateral trade pacts.[47] Thus strong echoes of economic nationalism and protectionism were integral to the decision to impose controls.

Nkrumah's government also used import controls for the purpose of transferring foreign exchange and import capacity from the private to the public sector, and to change the composition of imports from consumer to intermediate and capital goods to facilitate his strategy of state-led industrial development.[48] Thus in addition to the economic objective of protecting the balance of payments, other more political objectives in line with Nkrumah's vision of socialism were instrumental in the decision to impose import and exchange controls. Furthermore, control over production, through the creation of state enterprises, served to extend the orbit of the state as the medium of accumulation for CPP stalwarts and supporters, who used the state to distribute rewards to supporters and withhold resources from opponents.

Export Policies: The high priority attached to controlling the import trade in Nkrumah's development strategy contrasted sharply with the almost complete neglect of the export sector. The policies pursued with respect to cocoa, for example, created strong disincentives to producers. The real value of the price paid to producers and their total incomes were reduced by nearly two-thirds between 1960 and 1965. Real government spending on the industry also declined by about two-thirds between 1960 and 1965.[49] While it may be difficult, from an economic point of view, to understand this neglect of the country's main foreign exchange earner, from a political point of view it only has to be recalled that the cocoa growing areas of the country were a source of much opposition to Nkrumah.[50]

The most serious limitation of all was the failure to promote export diversification. Although attempts were made to establish intermediate processing plants for cocoa and timber, the evidence suggests that this led to net losses because of inefficiency, unfavourable world prices, and high wastage rates.[51]

This brief examination of trade policies under Nkrumah leads to the conclusion that it is hardly surprising that the country experienced acute balance of payments problems. The emphasis on import-substitution to the neglect of the export sector, combined with adverse movements in the terms of trade in the mid-sixties, exacerbated the foreign exchange shortage. The operation of import and exchange controls, designed to reduce the demand for imports, became self-defeating. Until the devaluation in 1967, the value of the national currency in relation to the currencies of its major trading partners was kept artificially high in the face of domestic inflation. This had the effect of lowering the cost of imports and making them more attractive relative to local goods, thus increasing the demand for imports.

Aside from improvements in industrial and social infrastructure, which on balance might have been the most beneficial legacy of Nkrumah's public investment drive, overall economic performance during the Nkrumah years was unimpressive. Economic problems began to surface from as early as 1961 and between 1962 and 1965, industrial production declined, inflation was rampant, and external debt arrears began to mount. Internal opposition to Nkrumah increased as economic problems intensified. The precipitous drop in the world price for cocoa in 1965 led to an import bill which could not be financed and by the end of the year it was obvious that the country could not meet its financial obligations. Negotiations were entered into with the IMF but Nkrumah rejected the Stablization measures that would have been a precondition for Fund assistance. On February 24, 1966, while on a state visit to China, Nkrumah was overthrown in a military coup.

While the achievements of Nkrumah have been the subject of much debate, his legacy in shaping the character of political discourse in Ghana has been enduring. Indeed, many successor regimes, including the PNDC, have invoked the name and the memory of Nkrumah to bolster their claim to legitimacy. As far as the politics of economic policy making is concerned, the model of governance Nkrumah created, which elevated the public sector to the centre of access to resources and rewards, remained virtually unchanged until the PNDC era. The only added dimension was the military factor which was introduced by the 1966 coup, and was thereafter to be a major force of change in Ghanaian politics.

Foreign Economic Policies After 1966: The National Liberation Council (NLC), 1966-69, and The Second Republic, 1969-1972.

The period between 1967 and 1971, the tenures of the NLC and Busia governments, was one of increased liberalization in the trade and exchange regime in Ghana. Although the defence of the balance of payments remained a top priority of these governments, their allocational priorities were different. For the NLC, the emphasis was on economic stabilization - policies to reduce the current account and fiscal deficits and inflation - while for the Busia administration the emphasis was on economic growth through increased investment. Neither attempt, however, was particularly successful.

The overthrow of the CPP in 1966 represented a new phase in the intra-elite conflict that had surfaced during the anti-colonial struggle. The coup ushered into power the more moderate wing of the middle class who had been on the political sidelines since 1951. The National Liberation Council (NLC), comprised of Sandhurst-trained senior military and police officers, was backed by chiefs, intellectuals and professionals, wealthy cocoa farmers, merchants, and senior bureaucrats, all of whom had been in opposition to Nkrumah.[52]

From the outset, the NLC government set out to dismantle many of the pillars of Nkrumaism. A key aspect of this was a programme of political demobilization designed to install `discipline' and `rationality' into production and distribution. The linch-pin of this programme was an IMF-supported Stabilization programme adopted by the government in 1966 which was divided into a stabilization and rehabilitation phase.

The stabilization phase was an orthodox package involving deflationary fiscal and monetary policies including:
1) a thirty per cent devaluation of the cedi;
2) liberalization of both internal and external trade;
3) reduction of government expenditures;
4) restriction of new loans to long-term;
5) reduction of public sector employment;
6) Privatization of state enterprises.[53]

Key policies in pursuit of this strategy included first, the liberalization of the trade and exchange regime established by Nkrumah. The intention of the NLC was the eventual abolition of all import, exchange and price controls but in practice, all that was achieved in this regard was a modest reduction in their coverage. For example, attempts were made to reduce the coverage and improve the allocation of the system of special import licenses and the scope of the non-restrictive `open' general licenses (OGLs) was progressively expanded.[54] OGLs for example, as a percentage of total imports, increased from 3% in 1967 to 57% in 1970.[55]

A second major policy of the NLC was increasing the role of Ghanaian private enterprises. Special legislation was introduced to assist Ghanaian entrepeneurs, including legislation that restricted certain activities to Ghanaians only. But here again, implementaion problems limited this initiative to the selling-off of a few state enterprises, the closing down of a few state farms and the establishment of an Industrial Holding Corporation to improve the performance of the remaining state enterprises.[56]

The only real `success' achieved by the NLC was that of improving the external payments position. Killick (1978) notes that under the NLC, the trading account moved out of the red, the current account deficits were reduced and there was improvement in the country's international liquidity, which were all achieved despite a reduction in export earnings.[57] But this achievement was at the expense of growth and was thus illusory. The combination of deflationary policies, which cut investment, a devaluation in 1967, and a sharp reduction in imports led to further stagnation in the output of all key sectors and failed to arrest the country's economic decline.

In 1967, an attempted coup resulted in the death of one the leaders of the NLC, and between 1967 and 1968, a series of strikes by labour protesting the austerity measures, hastened the return of the military to its barracks in 1969. Within two years, the country was again experiencing an external payments crisis that was almost as severe as the one in 1965.

<u>The Second Republic, 1969-1971</u>:

The election organised by the NLC in May 1969, was won by Busia's Progress Party (PP), which, as a successor to the UGCC, and the NLM, was of similar class composition to the NLC. Its development strategy essentially followed the path laid down by the NLC in emphasising economic liberalization. The model of governance of the PP, however, resurrected many of the methods reminiscent of the CPP years.

Like the CPP, the PP used the public sector to reward its constituents. Patronage politics of the kind introduced by Nkrumah, was elevated to new heights (or lows, depending on how one looks at it). Under Busia, however, patronage links closely followed ethno-regional lines, reflecting the Akan dominance in the PP leadership and thereby became even more exclusionary. And finally, like the CPP, the PP also thought it necessary to gain control over the state bureaucracy.[58]

Busia and his colleagues in the PP had little in the way of substantive economic policy as revealed in their party manifesto and their attitude towards liberalization was ambivalent at best.[59] At the same time that the cause of market forces was championed, for example, a large role was also envisaged for the state as evidenced by the existence on the same page of the party manifesto of the objectives of simultaneously pursuing trade liberalization and enforcing price controls.[60]

In line with the government's growth-oriented emphasis, key objectives of economic policy were:

1) raise domestic investment and savings;
2) expand export earnings and attract more external assistance;
3) accelerate the Ghanaianization of economic activities;
4) to place a special emphasis on rural development.[61]

Other policy initiatives taken by the Busia government included the expulsion of all aliens from the country through the passage of the Aliens Compliance Order in November 1969 in an effort to alleviate unemployment. The government also permitted a rapid expansion of imports and public expenditures to take advantage of the windfall cocoa profits resulting from high world market prices. This increased the payments deficit and flooded markets with imports.[62]

Although the Busia government had inherited a relatively stable external payments position and had the further advantage of being in power at a time when the world price of cocoa reached a fifteen-year high [63], by 1971, the failure of the government's economic strategy came to the fore with a severe balance of payments crisis. In the two years between 1969 and 1971, the PP government accumulated external debts that equalled the amount compiled by Nkrumah in nine years. In 1971, the PP government adopted an IMF-sponsored austerity package and devalued the national currency in December 1971, by 90 % in local currency terms.[64] Although this devaluation was accompanied by other measures such as a 25% raise in public sector wages, the unpopularity of the drastic austerity measures could not be masked. The devaluation entailed a huge loss of income for fixed income earners and users of imported inputs.

As Leith (1974) notes, this was in contrast to the 1967 devaluation which, accompanied by suppression of demand and limitations on imports, lessened the real impact of the change in the exchange rate.[65] In January, 1972, Col. I.K. Acheampong and his National Redemtion Council (NRC) overthrew the government of Busia. And for the second time the military intervened in Ghanaian politics following an acute payments crisis and a sharp reduction in the availability of resources.

Political Constraints and Economic Policies, 1972-1981.

The National Redemption Council & Supreme Military Council I, 1972-1978:

The new military government, the National Redemption Council (NRC), headed by Col. Acheampong, later renamed the Supreme Military Council (SMC) initially tried to forge a coalition between the military and the bureaucracy in a corporatist-type structure. Unlike the NLC, the military commanders of the NRC were comprised of middle-level officers (Acheampong and other members, however, soon promoted themselves to general-staff ranks). And like the NLC the NRC immediately set out to depoliticize public life, arguing that what was needed was a technocratic/administrative rather than a political approach to development policy.

As far as the politics of economic policy making is concerned, two periods are discernible in the tenure of the NRC. The first, 1972-75, can be seen as one in which a stalemate had come to characterise the rift between the ideological `right' and `left' within the political establishment in Ghana, the legacy of the old CPP-UGCC split. On the one hand, the failures of the Nkrumah years had undermined the salience of a statist-socialist strategy and on the other hand the failures of the NLC-PP liberalisation strategies, which had precipitated the NRC's takeover, made it impossible for the NRC to take that path.

The dilemma confronting the NRC, therefore, was not just economic but political as well. The failures of the two strategies and the economic consequences generated had demonstrated that neither of the nation's contending political class forces, left or right, was strong enough to establish hegemony. And this stalemate, which was to last until the first Rawlings coup in June 1979, had disastrous consequences on the country's economic development.[66]

It was in the context of this political and economic stalemate that the NRC, in true Bonapartist fashion, set out to unify the nation's contending class interests.[67] The types of economic policies pursued during this period were designed to appeal to all class forces including labour. Increased economic nationalism which saw a return to the widespread use of administrative controls in trade and exchange reminiscent of the Nkrumah period, served to fuel a resurgent nationalism and brought the regime a measure of popular support.

Several early policy initiatives of the NRC including policies to achieve food self-sufficiency and the establishment of regional development corporations did achieve some successes.[68] Other policy measures including the revaluation of the cedi and the indigenization of foreign owned enterprises under the Investment Policy Decree 1975 (NRCD 329), were also popular.[69]

Externally, despite the fact that the NRC repudiated a portion of Ghana's debt which it believed had been contracted under dubious circumstances (the medium-term suppliers credits contracted by Nkrumah), foreign creditors were surprisingly accommodative and agreed in 1974, to fairly generous terms of debt rescheduling. In March 1974, Ghana and its Western creditors reached a debt rescheduling agreement the terms of which stipulated that all payments due after February 1 1972, in respect of pre-1966 debt obligations were to be paid over a period of twenty-eight years beginning in 1982 after a grace period of ten years. Interest was fixed at 2 1/2 percent per annum.[70]

The successes of these early policy initiatives bought the illusion of economic prosperity, but could not mask what in effect was the absence of a coherent macro-economic package. By 1977, this illusion was shattered when high inflation, shortages of virtually every conceivable item, and declining production in all sectors, brought home the extent of the economic mismanagement of the NRC-SMC.[71] As deficits rose in response to declining revenues in the face of increased government expenditures, the government's response was to print money. By 1977, inflation was in triple digits, fueled by food shortages, and an annual increase in the money supply of 50 %.[72]

What is most ironic is that economic conditions worsened at a time when world prices for the country's principal export -

cocoa - were at an all-time high. Thus although events in the international economy at that time, namely, the oil price increases of 1973-74, might have contributed to Ghana's economic downturn, they were certainly not the principal cause.

The reasons for the sharp economic deterioration are not hard to find. A combination of poor economic management and unparalleled corruption were at the root. 1975 marked a turning point in the fortunes of both the government and the economy, and the period between 1975 and 1978, the second discernible period in the tenure of the NLC, was marked by increasing policy incoherence. In 1975, Acheampong purged the NRC and created the SMC as the highest decision making body. This ended the initial alliance forged with the bureaucracy and concentrated and personalised power in the hands of Acheampong.

Under Acheampong the patronage structures created by the Nkrumah and Busia regimes that had served to link specific social groups with the state, were eroded under the pretext of unifying the nation and eliminating the political and class rivalries of civilian governments.[73] In its place, a different type of network was established - `kalabule'- that involved corrupt ties between individual state functionaries and `businessmen' involved mainly in the import-export trade. These types of `kalabule' exchanges thrived on the economic rents that were created by government trade and exchange policy, particularly the operation of import and price controls. Under Acheampong then, the pursuit of rents through retail and wholesale trade became the most profitable economic activity in Ghana, and as noted in section one, this was at the expense of the more directly productive sectors.

By 1978, the NRC-SMC kleptocracy had succeeded in alienating just about every segment of Ghanaian society. Earlier, in 1976, in an effort to salvage his regime, a `Union Government' proposal was put forward by Acheampong, which envisaged the creation of a government of national unity designed to include all segments of the society including the military in a nebulous corporate framework. Most Ghanaians correctly interpreted these proposals as nothing more than the attempt by a corrupt and bankrupt regime to extend its rule. Dissatisfaction turned into outright civilian revolt culminating in the largest strike in the country's history that encompassed virtually every wage and salaried worker. In July 1978, Acheampong was overthrown by his second-in-command, Gen. Akuffu, after a manipulated referendum on the `Unigov' proposals.[74]

<u>The Supreme Military Council II, July, 1978 - June, 1979</u>: The SMC II of Akuffu survived for barely a year. During this period, the new version of the SMC tried to put some distance between itself and its predecessor. The new government turned to the IMF and under prompting from the latter, introduced a Stabilization package in August 1978 financed by a stand-by credit of SDR 53 million.

Key stabilization measures included a devaluation of the cedi from C1.15/$US to C2.75/$US, a drastic reduction in the budget deficit and an increase in interest rates. A currency reform was instituted in March 1979 to rid the economy of some of the excess money in circulation, and the producer price of cocoa was increased.[75] It is doubtful whether the regime could have implemented these measures, however, given the high degree of societal dissatisfaction and protest. In 1978 for example, a strike by civil servants forced the regime to declare a state of emergency which lasted for two months.[76]

Sustained pressure from social protest undaunted by the authoritarian measures, and the worsening economy forced the regime to agree to hand over power to a civilian government and steps were taken to map-out a time-table for elections.

If the members of this junta were under the illusion that they could walk away from the mess they had created by simply transferring power to a civilian government, they were sorely mistaken. In May 1979, Flight Lieutenant Rawlings made a first attempt at toppling the SMCII, and on June 4, 1979, while in jail awaiting trial, supporters of Rawlings, in the bloodiest coup in Ghana's history, overthrew the government of Gen. Akuffu.

<u>The Armed Forces Revolutionary Council, June-September, 1979</u>: The period of rule of the Armed Forces Revolutionary Council (AFRC), the government created by Rawlings in June 1979, was the shortest but the most violent and turbulent in the country's post-independence history. In its composition, the AFRC was drawn

almost exclusively from the enlisted ranks and NCOs, and by this fact was of a different class composition from previous military governments. The AFRC, however, was able to galvanise support from virtually all segments of Ghanaian society, from the lower classes to the upper classes, by capitalising on the widespread discontent with the NRC-SMCI & II disaster.

The actions of the AFRC over the three months of its term in office in many respects came to symbolize the frustrations of a people who had been traumatized by their leaders. Key objectives set out by the government were to demand accountability of all public office holders and to restore moral values which were believed to have been corrupted by previous governments. These objectives were to be achieved through a `house cleaning' exercise which commenced with the trials and executions of several former heads of state and government office-holders, including Generals Acheampong and Akuffu. Other programmes carried out by the AFRC included the dismissal of some senior civil servants who had been too closely associated with the deposed regime, the establishment of committees of inquiry to probe instances of corruption, confiscations of assets and tax collection drives.[77] These programmes, although quite popular in Ghana, drew the displeasure of the international donor community, which reacted by freezing all external assistance.

As far as economic policy was concerned, no major policy initiatives were carried out by the AFRC except to enforce price controls, harrass traders and market women and jail smugglers as part of its drive to restore accountability and probity in all sectors of society. Predictably, the harrassment of traders led to the hoarding of goods which further fueled inflation.

To its credit, the AFRC interrupted, but made no attempt to stop, the planned return to civilian rule, despite the publicly declared antipathy of Rawlings to what he considered the corruption of all `establishment' political figures, civilian and military. Thus although its `house cleaning' excercise was far from complete, the AFRC supervised national elections held in September, 1979, which was won by the Peoples' National Party (PNP) of Hilla Limann.

<u>The Third Republic, September 1979-December 1981</u>: The campaign for the 1979 election resurrected aspects of the old CPP-UGCC-NLM axis. Although six parties contested the elections, the three major parties were the PNP which brought together former CPP activists and supporters; the Popular Front Party (PFP) which was composed of former PP and NLM members and supporters; and the United National Convention (UNC), whose leaders had also been active in Busia's PP. The major differences between the UNC and the PFP were regional and ethnic. The PFP had its support base largely in the Ashanti and Brong-Ahafo regions, while the UNC was largely coastal-based, and derived its support from the Ga, Ewe, and coastal Akan groups.

Like the CPP in 1956, the only party that could claim active support in all regions of the country was the PNP, which, for the first time in the country's history, was led, and and strongly influenced by, interests from the country's northern regions. The Party's presidential candidate, Dr. Hilla Limann, and some of its most influential leaders, came from the Northern and Upper regions of the country.[78]

The overall election campaign, despite the fact that the platforms of these parties did envince some very important ideological differences, failed to generate the the kind of enthusiasm that had accompanied previous elections and this was reflected in the turnout - 34% for the presidential election and 38% for the parliamentary election. The PNP won the election with a solid majority and thus formed the government of Ghana's Third Republic in September, 1979.

It could be argued that the Third Republic was doomed before it was even inaugurated. The election campaign had occurred amidst the turmoil of the AFRC `house cleaning' exercise and the lacklustre campaign and low voter turnout pointed to the extent of apathy and distrust the majority of Ghanaians had towards establishment political figures, an attitude no doubt fostered and encouraged by Rawlings's public attitude. Indeed, at the ceremony to inaugurate the Third Republic, Rawlings stunned the audience by issuing a veiled threat to the president-elect that he (Rawlings) would be waiting in the sidelines to intervene if the PNP resorted to any of the practices that Rawlings's `house cleaning' had tried to eradicate.[79]

Beyond this, the economy inherited by the PNP, was in a precarious state, which severely limited options. The budget deficit was equal to about 65% of total revenue, inflation was running at 54% anually, there were severe shortages of all imported goods, and cocoa exports were less than 75% of their level in 1975.[80] And although the election was dominated by the same middle-class coalitions that had dominated Ghanaian politics since independence, the events over the preceding decade, and especially, the AFRC interlude, pointed not only to an erosion of the basis of state power, but also, to a shift in the class basis of this power.

The most important legacies of the AFRC in this regard were: first, the proliferation of urban-based non-establishment, populist and `revolutionary' organizations, including the June 4th Movement and the New Democratic Movement, which introduced a new element into the national political discourse. These `revolutionary' organizations would play a key role in the PNDC era. Second, the further erosion of the already weakened institutional capacities of the state, following the purges of top functionaries.

In terms of economic policy, the PNP administration was characterized by indecision and hesitation. To be fair, with the economy near collapse and with a state machinery that had all but ceased to function, the government had few options and even fewer political resources. Most of its energies were thus directed at averting a collapse. As far as trade and exchange policy was concerned, the emphasis was on streamlining the administratively controlled system. Attempts were made, for example, to improve the allocation of import licenses to reduce the over-invoicing by importers and the under-invoicing by exporters that was rampant during the Acheampong era.[81]

To encourage foreign investment in what were considered to be `priority sectors'(gold, diamonds, manganese and timber) new incentives for exporters were announced in the government's 1981 budget that included an increase in the export bonus from 10 to 20%. Other incentives included a provision for exporters to retain 20% of their foreign exchange earnings and a reduction in the company income tax by 5%.[82]

These incentives for exporters, however, did not apply to cocoa producers. Although the producer price was raised from c4000/mt to c12,000/mt, this figure ammounted to only 38% of the 1960 level.[83] Despite strong pressures on the government to increase the producer prices by a higher margin to encourage production and discourage smuggling, the response of the Finance Minister, Benneh, was that the low world price for cocoa made an increase in the producer prices impossible. The result was that output in the cocoa sector in 1981 was its lowest since 1958, with a large portion of the cocoa crop being either smuggled to neighbouring countries, or destroyed by farmers to replant with other food or cash crops.

By mid 1981, the government was in the midst of a severe fiscal and debt crisis. As the world prices of cocoa plumetted, government revenues from cocoa were actually negative in 1980 and

1981 since the world price at the grossly overvalued exchange rate was less than the producer price plus marketing costs.[84] Total debt reached $1.4 billion in 1981 and the government was $400 million in arrears on short-term debt. The government entered negotiations with the IMF with a view to obtaining a $1billion loan. While agreeing in principle with the IMF and the World Bank on the need for the stabilization measures which were set as preconditions for the loan, Limann, recognising the weaknesses of his power base, and the fact that devaluations had in the past led to the fall of Ghanaian governments, baulked at the idea of introducing stabilization measures.[85]

By the end of 1981, the state in Ghana was near collapse. Government deficits equalled 139% of all revenue in 1981. Internal fighting among party members amidst allegations of corruption, which split the ruling party into two feuding camps, one led by the President and the other led by the `old guard' of former CPP functionaries and activists, further weakened the ability of Limann to take any bold initiatives and compounded the worsening economic situation.[86] By December 1981, inflation was running at 116% and production in virtually all sectors had fallen by over 30%. In the midst of this, there were strikes, ethnic unrest, and demonstrations by students. The most serious threat to the regime, however, came from the ranks of the armed forces, who, through the actions of the AFRC, had become a potent force.

The actions of the AFRC had undermined the credibility of the military establishment in the eyes of the enlisted ranks and Rawlings, who was very popular among the ranks, was seen as a threat by senior commanders. In an effort to contain the situation, the PNP administration set out to discredit Rawlings and other former members of the AFRC, including forcibly retiring them from the armed forces, offering `compensation' to those who agreed to leave the country, and harrassing those, who like Rawlings, refused the bribe and chose to stay. In the evening of December 31, 1981, while members of the PNP and government officials were at a new year's eve party, Rawlings carried out his threat, and overthrew the government of the third republic.

As Chazan, (1988) notes, in retrospect, the Limann administration was simply an interlude between Rawlings' hesitation in 1979 and his decision to engage in politics on a more permanent basis.[87] Unlike the AFRC, the Provisional National Defence Council (PNDC) established by Rawlings in January 1982, was in power to stay. The next chapter examines in detail the politics and policies of the PNDC.

[Section Three]

Analysis of the Historical Pattern.

Perhaps no other issue-area in economic policy making is as affected by political considerations as the area of foreign trade. The importance of foreign trade measured in terms of its impact on domestic variables central to the political objectives of any regime, has been extensively documented.[88] For this reason, in Ghana, as elsewhere, decisions regarding foreign trade have been strongly influenced by domestic and international political considerations that have had little regard for traditional economic concepts and principles such as comparative advantage and factor endowments. Successive governments in Ghana have sought to control and to manipulate various trade-regulatory instruments to achieve domestic economic and political objectives. And in the process, short-term political imperatives have often taken precedence over longer-term economic objectives.

In the history of foreign economic policy making in Ghana, two opposing views or ideologies on the management of the balance of payments have been evident. This has been the conflict between administrative management of the balance of payments on the one hand and economic liberalization on the other. The first, and by far the most dominant, has relied on allocative and distributive mechanisms controlled by the state: fixed and overvalued exchange rates, import restrictions and special licences, domestic price controls, etc. The second policy alternative, which favours a greater emphasis on market allocative and distributive mechanisms, has had much less currency in Ghana, and apart from the period between 1951-59, has been associated mainly with periods of IMF - inspired stabilization in 1966-68, briefly at the end of 1971, and between 1978-79. The differences between these two alternatives, however, have been differences of degree and not of kind. Despite the range and variety of regime types since Nkrumah's CPP, when administrative controls on trade and exchange were first imposed, there has been a remarkable degree of continuity in policy.

<u>State or the Market? An Assessment of the Economic Policies.</u>

<u>Restrictive Trade Practices</u>: The most important trade regulatory policies in Ghana have been exchange and import controls and other quantitative restrictions, tariffs, and price controls. As far as economic objectives are concerned, these have been justified for reasons of the management of the balance of payments, managing external debt, and protecting infant industries.

1) <u>The Exchange Rate</u>: The Ghanaian cedi has been tied to the US dollar and thus any fluctuations in the value of the dollar affects the real value of the cedi.[89] Ghana's major trading partners are the developed countries and any changes in their currencies and/or changes in their terms of trade affect Ghana's trading relationships. As an exporter of primary commodities and an importer of manufactures, both of whose prices are set in the developed countries, the `right' exchange rate is necessary to produce the required response to Ghana's trade balance.[90]

An overvalued exchange rate has several negative effects on an economy. One consequence of overvaluation is to raise the price of the country's products relative to its trading partners which reduces the quantity demanded. Second, overvaluation lowers the price of competing imports (below what it would be at a freely-determined exchange rate) and thus discourages the domestic production of tradeables (agricultural and industrial). Third, in terms of production resources, overvaluation tends to lower the price of foreign based resources relative to local ones so that domestic producers prefer to use imported resources to domestic alternatives.

In Ghana, an overvalued exchange rate has been maintained, not to discourage domestic production of tradeable goods, but to shield consumers from bearing the cost of adjusting to balance of payments deficits and to the weakening currency relative to other currencies, and to offer protection to domestic industries. However, in view of the fact that an over-valued exchange rate on its own, increases the demand for imports and thus has a negative effect on domestic production, a combination of tariff and import restictions has also been employed to adjust demand for imports to the supply available.

2) Tariffs: Tariffs, such as import duties and surcharges, raise the domestic price of imports and would thus generally favour import substitutes. The tariff system in Ghana has had selective effects on incentives to import through differential rates on different classes of goods (e.g., high on consumer products and luxuries and low on capital goods and intermediate inputs).

3) Import Licensing and other Quantitative Restrictions: These directly restrict the supply of competing imports rather than raise their price. They are intended to stabilize the balance of payments, protect domestic industries from foreign competition and allocate scarce foreign exchange among (excess) demand at the

official (overvalued) exchange rate. In practice, however, given the high demand for imports, import licensing creates a scarcity of these goods and thus causes the price to go up on the open market (or the parallel market where prices are controlled). Hence the need for price controls.

4) Price Controls: Price controls have been used extensively in Ghana for the purposes of controlling inflation, keeping the prices of `basic necessities' at affordable levels and allowing firms to achieve `fair' but not excessive or monopolistic profits. In practice, however, price controls have been ineffective in controlling market prices and have instead reduced the ability of producers to share in the scarcity value of goods they produce and thus have tended to favour trading rather than production. The reasons for this are not far to seek.

The combination of an overvalued exchange rate, high tariffs, import and price controls creates an opportunity for rents in the form of a gap between the domestic price of a good and the true cost of importing or producing it. Thus anyone with access to imports at the overvalued exchange rate could sell the product on the domestic (parallel) market and make a windfall profit or `rent'. And this is precisely what happened in Ghana. By the beginning of the 1980s, after two decades of exchange rate overvaluation and restrictive trade practices, the most profitable and viable economic activity in Ghana had become the pursuit of rents by traders. This has had two important implications, economic and political.

Economically, the growth and pervasiveness of rent-seeking drew resources away from directly productive activities, reduced the real returns to producers and thus adversely affected production in all sectors of the economy. Politically, rent-seeking, by its adverse economic effects, undermined and weakened the state and its institutional capacities through an erosion of its fiscal basis and through the establishment of corrupt `kalabule' exchanges between state functionaries and traders.

Since production in Ghana, both for the domestic market and for export, is heavily dependent on imported inputs, perhaps the most significant economic constraint in terms of its far-reaching impact on the overall economy, has been a foreign exchange constraint reflected in persistent balance of payments problems. This constraint has in part been structurally-induced by adverse movements in the terms of trade and commodity concentration, and by a structural imbalance between the capacity to earn foreign exchange and the requirements of an import-dependent economy, in which domestic productive sectors could only respond to growth in domestic demand via foreign trade. Although the foreign exchange crisis is at root a structural crisis, it has been exacerbated by government policies, which have restructured incentives away from production and exports towards rent-seeking.

The foreign exchange constraint has had a major impact on the politics of economic policymaking. On five separate occasions prior to December 31, 1981, successive governments have turned to the international community for balance of payments support and this relationship has proven to be politically costly. In 1966, Nkrumah's CPP government was overthrown following an acute balance of payments crisis; in 1971, the Busia administration was overthrown following an IMF - inspired devaluation of the cedi; in 1979, the SMCII of Gen. Akuffu was toppled again following acute balance of payments problems and a devaluation of the cedi; and finally, there is evidence that it was rumours of an impending devaluation that in part precipitated the PNDC coup against the PNP government in December, 1981.[91] It is against this background of external payments crises and the political sensitivity of exchange rate adjustments in Ghana that the policies of the PNDC after 1983 should be viewed.

The State or the Market? An Assessment of the Politics of Economic Policy Making.

The above trade-regulatory measures have been employed to a greater or lesser degree by all Ghanaian regimes since Nkrumah, even in the so-called `liberalization' periods. And for each regime similar political imperatives have motivated the desire to extend state control over the allocation and distribution of resources. Let us examine these political pressures.

Domestic Factors:

The State-Society Dimension: The social bases of political power in Ghana, although it has been undergoing a gradual process of disaggregation, has been extremely narrow and highly competitive. Although society is heterogenous with cleavages occuring around class, ethnic, regional and ideological lines, politically significant groups, in terms of the expression of political affect and dissent, have been the middle classes (which includes the military and bureaucratic elite), students and urban workers, with the vast majority of the population with little or no political voice.

Political power has been the preserve of the weak and fragmented middle class and there has been an inversion of the usual relationship between political and economic power. With no independent economic base, the middle classes have come to view the state as the medium of accumulation and proximity to the state as a precondition for social mobility. The model of governance that has dominated the political landscape, which, without exception, has been avowedly statist, placed the public sector at the hub of social mobility and emphasised bureaucratic distribution, has reflected these factors.

The most significant feature of state-society relations in Ghana, therefore, has been the prominence, but not the dominance of the state in society. Despite the range and variety of regime types since 1957, the common denominator linking each of these governments has been the attempt, not altogether successfully, to consolidate power around state institutions. Successive governments since Nkrumah, have been confronted with powerful sectional interests that have developed along class, ethnic and regional lines, and that have reflected the multiple power vectors of a highly heterogenous society.

If the 196' referendum can be seen as a decisive point in the development of this model, the February 1966 coup can be seen as the watershed. It institutionalized the armed forces as a potent political force and set in motion a cycle of military interventions that have become the major force of change.

Relations Within the State: In addition to the state-society dimension, and perhaps even more importantly, politics in Ghana has been shaped by a growing material contradiction within the state itself which has been both a cause and a consequence of the economic crisis. This has been expressed in the conflict between the political and technocratic wings of the state. Although the two groups are of similar middle-class composition, the conflict is in large part a reflection of the different social bases of power of the two groups and the economic conditions necessary for maintaining and reproducing this power.[92]

With the political wing of the middle class, whose basis of power rests in developing and maintaining a social constituency, however narrow, the emphasis has been on a politics of distribution to reward supporters and exclude rivals as a means of reproducing their power. For this group, some measure of state control over allocation and distribution of resources has been seen as necessary. With the technocratic wing, with no social constituency to speak of, the emphasis has been less on distribution and more on production and thus the emphasis of economic policy has been more on the operation of market forces in the allocation and distribution of resources.

Thus the tension between administrative and market allocation, has to a large extent reflected the conflict between politicians and technocrats over how to reproduce the conditions necessary for capital acummulation. And it is in this conflict, particularly the constraints on development planning and implementation, that the explanation of the failures of development strategies is to be found. If development planning is defined as an attempt to rationalise policy in order to select the optimal means for achieving specified goals, then the planning experience in Ghana leaves much to be desired.

Take for example, Nkrumah's `Seven Year Development Plan, 1963/'64 to 1969/70' (7YP). This plan, together with the CPP's `Programme for Work and Happiness' published in 1962, were meant to give economic and political guidance to Nkrumah's development strategy, the key aspects of which were noted above. As Killick (1978) notes, however, the 7YP was reduced to a piece of paper with an operational impact that was close to zero.[93] The reasons for this include, defects in the plan itself, the intervention of external factors beyond Ghana's control (e.g., the precipitous drop in world cocoa prices in 1965) and perhaps most importantly, implementation problems stemming from two sources: first, tensions between economic realities and political aspirations; and second, limited state capacities.

The 7YP, which was drawn up by specialist technocrats in the government bureaucracy, for example, although meant to provide guidance to Nkrumah's strategy, did not wholly reflect the aspirations of the government. Thus for example, while Nkrumah was emphasising industrialization, the 7YP took the view that it was only through agricultural development that national incomes could be raised. Furthermore, serious rifts developed between the Planning Commission, headed by J.H. Mensah, who would become finance minister under Busia, and the Minister for Finance, K. Amoako-Atta, over who had control over the government's capital budget. Other ministers in the government also refused to submit to the disciplines of a plan.

The conflict between the political and technocratic wings of the state also surfaced in the NLC, Busia and subsequent regimes. With the NLC, the conflict was between its two main policy-making organs, the Political Committee and the Economic Committee. The Political Committee, consisted of politicians who had been in opposition to Nkrumah and would become members of the Busia government and they provided the intellectual and ideological underpinning the NLC lacked. Members of this committee were openly critical of many of the NLC's economic policies, inclined as they were to some measure of state control over the economy.[94] And this in part explains the limited liberalization that was achieved during the NLC period.

The ambivalence towards market forces of the Busia regime, despite strong pressures from the IMF, can also be explained by reference to this conflict within the state. The same attitudes and political imperatives that had motivated Nkrumah's drive to consolidate state control over the economy were also present in the Busia government. A noteworthy example is J.H. Mensah, who as Nkrumah's Planning Commissioner, espoused a technocratic market-oriented philosophy very much in opposition to Nkrumah. In the Busia regime, however, Mensah became a politician, the Finance Minister, and began to sing a very different tune. By 1971, Mensah was calling himself a `pragmatic socialist' and was espousing a the virtues of "publicly owned capital as one of the major engines of economic growth."[95] His new-found faith in the efficacy of state intervention led him to oppose the large IMF-inspired devaluation in 1971, which precipitated the coup against the PP government.

Limited state capacities was another significant factor in the explanation of policy failure. Killick (1978) extensively documents instances of administrative bottlenecks, wastage, and sheer incompetence in the operation of state enterprises in the Nkrumah period.[96] Indeed, the demands placed on the state machinery in terms of the administrative planning, regulation and control of economic policy exceeded the capacity of state institutions and individual state functionaries to manage effectively. As the fiscal crisis of the state intensified during the 1970's, which was evidenced in mounting budgetary deficits and external debt, the institutional capacities of the state were further eroded at the same time that the social bases of the state impelled it towards an expansion of its intervention and regulation.

<u>External Factors</u>: A central issue that has not been explicitly addressed in the preceding analysis needs to be clarified: what has been the relative impact of external factors in the formulation of policy? There has, for example, been considerable debate concerning the role of dependency and the influence of external agencies like the IMF and the World Bank in shaping policy. Let us examine this issue in some detail with respect to Nkrumah's policies. Was Nkrumah really the helpless victim of economic dependency and international imperialism as some observers have argued? The available evidence does not support this view.

The fact of dependency of the Ghanaian economy is undeniable. During the 1950s and 1960s, for instance, most of the country's industry and commerce was foreign owned and most consumer and capital goods had to be imported. For example, the mining sector was wholly owned and managed by British investors; and 50% of wholesale and retail trade was controlled by foreign firms like the United Africa Company (UAC). These same firms controlled 74% of import trade, 77% of timber and saw-milling; and 90% of manufacturing. In addition, the banking, insurance and shipping industries were almost wholly in the hands of foreign monopoly interests.[97]

In addition, exports were primary commodities dominated by cocoa and the geographical distribution of trade still showed the `colonial' orientation, with the U.K accounting for about one-third of the total.[98] It was to redefine this essentially `neocolonial' character of Ghana's economy, that Nkrumah's `socialism' and public investment strategy was designed.

This fact of structural dependency did provide constraints on the economic options available, particularly in terms of the volume and the types of financing available for development projects and programmes. The need for external assistance did permit the governments of the major creditors and aid donors, including the IMF and the World Bank, to exert leverage on economic policies in Ghana. But as noted in chapter one, it is easy to exaggerate the extent such leverage had on policies.

Indeed, for most of the period between 1960 and 1966, the level of external financial flows and private investment, was negligible, primarily a result of Nkrumah's ambivalence towards foreign aid. Net receipts from private investment totalled c124 million and there was about c130 million in long-term aid. The combined total of these two items amounted to only 10% of total fixed investment between 1960-66. If this figure is netted against payments of profit remittances and interest the total for the six years amounts to a mere c30 million.[99] And most of the official and private investment during this period went to the financing of the Volta River Project, a giant hydro-electric dam to provide energy for an aluminium smelter. The former was financed by loans from the World Bank's IDA, the US and UK governments, and the smelter by a consortium known as Valco, 90%

owned by Kaiser-Reynolds of the US.[100]

Thus dependency did have an impact on Nkrumah's economic policies but mainly in terms of limiting or constraining what could or could not be achieved with the resources available. What is noteworthy about the Nkrumah period is that he did press ahead with his development strategy despite these constraints and disagreements with external agencies and donors, particularly the IMF.

<u>**The Role of the IMF**</u>: Although Ghana had joined the Fund in 1960, little use had been made of its resources prior to 1966, in large part a result of disagreements between Nkrumah and the Fund on the management of the economy. The sources of this disagreement are not hard to find: Nkrumah's inward-looking state-led import-substitution strategy which involved a multiplicity of trade and exchange controls and restrictions went against the fundamental economic tenet the IMF had been established to uphold. This principle is the IMF's system-wide role of developing and maintaining multilateralism in international payments.[101]

Available evidence suggests that from as early as 1962, the Fund had concerns about economic developments in Ghana. Prior to 1962, the CPP had preferred to run down its reserves to finance its investment programme. In 1962, however, faced with the deteriorating external payments position and the rapid depletion of reserves, the CPP borrowed US$ 14.25 million from the Fund.[102] Thereafter, relations between the Fund and the CPP government continued to deteriorate as Nkrumah continued to ignore the former's policy advice.

In 1964, after a visit by a Fund team to Ghana, its Executive Board issued a warning which was quietly ignored.[103] In May, 1965 a stronger recommendation was issued by the Fund, following a request by the Nkrumah government to draw on the Fund's resources to reduce the steep payments deficit that year.[104] Disagreements with external interests over economic policy were not limited to the IMF. The policy recommendations submitted to the CPP government by the IMF in May 1965 were supported by the World Bank Mission.[105]

As noted earlier, the 1966 coup can be better explained as an attempt by the technocratic wing of the state to reimpose economic rationality into policy making. Indeed, the key planners for the NLC were the architects of Nkrumah's 7YP. These planners and the military commanders, were to forge a close collaboration with the technocrats in the IMF as a means of overcoming political resistance. As Hutchful (1987) notes, the 1966 coup became necessary only because the IMF did not appear to be successful in forcing a change in Nkrumah's policies. To explain the overthrow of Nkrumah only in terms of external factors would be to deny the importance of domestic class forces, particularly within the state.[106]

Thus, despite strong external pressures, Nkrumah's response was to press ahead with his investment programme, to try to contain the payments deficits through the use of import and exchange controls, running down reserves and obtaining medium-term suppliers credits, all in the gamble that import-substitution and export-processing industrialization would generate sufficient foreign exchange and thus ultimately improve the payments position. As we have seen, the odds were against his gamble.

The intransigence of the Nkrumah regime towards the IMF contrasted sharply with the close collaboration of the NLC and later, the Busia regimes. Indeed, in the Busia regime, the influence of the IMF over economic policy was pervasive. Upon the recommendation of the Fund, for example, the Busia administration invited a group of Harvard Development Advisory Service (DAS) economists to take over the formulation and planning of economic policy at the Finance Ministry.[107]

Relations with the IMF again turned sour during the early years of the NRC regime which overthrew Busia. It was noted earlier how Acheampong reversed the policies of the Busia regime by revaluing the national currency and repudiating a portion of Ghana's external debt. This defiance, however, was temporary, and was made possible by the rise in the world prices for Ghana's principal exports at the time. Mounting economic problems by 1978 led to the fall of Acheampong's SMCI and to another brief period of close collaboration between the IMF and Akuffu's SMCII.

An historical pattern is clearly descernible in the relationship between the IMF and Ghana. First, the influence of the IMF has waxed and waned in response to economic performance, and more importantly, the perceptions of the range of options available to policy makers. In periods of apparent economic prosperity, where governments have perceived a wider range of options, as in the Nkrumah and Acheampong periods, the relationship has been one of defiance. In periods of acute payments crises, where governments have perceived a narrower range of options, as in the NLC, Busia and SMCII periods, the relationship has been one of collaboration.

Second, and as a corollary, the decision to forge a collaboration with the IMF, has been prompted by the material contradictions within the state which have followed periods of mounting economic problems. This material contradiction within the state has weakened the political basis of the regime in power. It is no accident, therefore, that periods of collaboration with the IMF between 1966-1972 and again in 1978-79, have followed military interventions, and in each case, the new governments forged alliances with external agencies in order to strengthen their political and class positions. This pattern continued with the PNDC in 1983, but with some important differences which will be examined in chapter four.

Thus as Hutchful (1989) notes, the 1966 coup and the subsequent military interventions in 1972, and 1981, represented an attempt to realign power away from the political to the technocratic wings of the state, in an effort to restore `rationality' into the accumulation process.[108] And, as noted in Chapter two, the Rawlings coup of December 31, 1981, and the subsequent liberalization policies pursued after 1983, can be seen as a triumph of this technocratic rationality over the political rationality of distributive policies.

CONCLUSION: Historical Constraints and Government Learning.

Prevailing views of the state in Africa contend that the state has been captured by society, or by a bureaucratic bourgeoisie, or by a single personal ruler, or even that state policy simply reflects the interests of dominant external powers. The state in Ghana, however, as a structure of governance and rule that defines institutionally and legally, political authority in society, has been both relatively autonomous from particularistic interests as well as an arena of conflict and competition.

The autonomy of the state derives from the inconclusive contest and competition among rival political and class forces over the direction of state policy, a product of the premium attached to capturing and maintaining state power to advance parochial interests. This competition has occurred at three inter-connected levels: first, in the relationship between the political and technocratic wings within the state structure itself; second, in the relationship between the political regime in power and influential socio-economic groups in society; and third, in the relationship between the state and dominant external actors.

Although all three levels have been implicated to varying degrees, what has been decisive in determining the policy directions of the state in Ghana, has been the conflict between rival elements within the state structure. Policy outcomes have thus tended to reflect the balance of power within the state and not necessarily the preferences of dominant interests either in society or external, although alliances forged with such interests have served, temporarily, to tip the balance in favour of one or the other of these competing elements. And in a situation where no class fraction has been able to establish hegemony, the competition has been inconclusive and the result has been a virtual paralysis of the state and an inability to forge a coherent macro-economic programme.[109]

The unresolved conflict within the state over how to reproduce the conditions necessary for capital accumulation, which has been both a consequence and a cause of the economic crisis, has led to political instability and increasing delegitimation as evidenced in frequent regime changes, loss of policy control and effectiveness, authoritarianism and repression, and an erosion in the support bases of the state.

The historical record thus suggests that economic policy making in Ghana has not been accompanied by any significant learning. And this derived, not from the unwillingness or inability of successive governments to learn from the mistakes of their predecessors, but from a failure to recognise and to tackle key aspects of the problem. In essence, a self-perpetuating cycle was created in Ghana through which each successive regime was compelled by the exigencies of the political and economic constraints identified in this chapter, to pursue essentially similar policies.

The two major constraints on the economic development of the country, and which to a large extent account for the decline in the production of all sectors, have been: economically, the foreign exchange constraint, and politically, the model of governance. As will be shown in subsequent chapters, what distinguished economic policy making under the PNDC was the recognition of the role of these constraints, and the explicit attempt to deal with them. It is in this historical context that the role of learning in shaping the PNDC's path to adjustment is viewed.

NOTES

1. World Bank, Ghana: Policies and Programme For Adjustment (Washington, D.C.: World Bank, 1984).

2. "Government of Ghana: Economic Recovery Programme, 1984-86." Vol 1. Report Prepared by the Government of Ghana for the Meeting of the Consultative Group for Ghana, Paris. Accra, October, 1983. pp. 2-3.

3. Republic of Ghana, Quarterly Digest of Statistics, various years.

4. Government of Ghana, "Economic Recovery Programme", 1983, p.2.

5. For a fuller account, see J. Clark Leith, Foreign Trade Regimes and Economic Development in Ghana. 1974, pp. 20-24. See also J. Dirck Stryker et. al, Trade Exchange Rate and Agricultural Pricing Policies In Ghana, 1990, pp. 13-15; and Tony Killick, Development Economics in Action: A study of Economic Policies in Ghana (London, Heineman, 1978) Chapter five.

6. World Bank, Ghana: Towards Structural Adjustment v.2, October, 1985, p.3.

7. Government of Ghana: "Economic Recovery Programme, 1984-86". V.1. Accra, October, 1983, p.2.

8. Government of Ghana, Quarterly digest of Statistics, (Various).

9. Republic of Ghana, "Economic Recovery Programme" 1984-86, p.6. Republic of Ghana, Quarterly Digest of Statisticts, various.

10. World Bank Ghana: Policies and Programme for Adjustment, 1983, p2.

11. World Bank, 1984, p.2. It should be emphasized that all statistical figures used in this study on economic performance in Ghana are measures of officially recorded economic activity only. Thus figures indicating GDP growth rates, for example, do not accurately reflect economic performance since an increasing portion of economic activity in Ghana after 1974, took place outside official records.

12. See Ernesto May, "Exchange Controls and Parallel Market Economies in sub-Saharan Africa: Focus on Ghana." World Bank Staff Working Papers, #711, (Wash, D.C., World Bank, 1980). Stephen Younger (1989) however, argues that May's estimate of the size of the parallel market in Ghana is too high. He suggests that a more realistic figure for parallel market activity during this period is 16% of GDP since if May's figures are accepted, it

implies that the overall economy in Ghana grew by 12.1% in 1980 and shrunk by 9.9% in 1981. See Stephen Younger, "Ghana: Economic Recovery Programme", World Bank-EDI Policy Case Series #1, 1989, p.129.

13. See, for example, the report by Elliot Berg, Accelerated Development in Sub-Saharan Africa: An Agenda for Action. (Wash, D.C., 1981). In the more recent World Bank reports, there is a belated recognition of the importance of political and structural factors. See World Bank, Sub-Saharan Africa: From Crisis to Sustainable Growth. A long-term Perspective Study (Wash, D.C., November, 1989), and The Long-term Perspective Study of Sub-Saharan Africa. Background Papers, v.1-4 (Wash, D.C., June, 1990).

14. See Chapter One, pp. 15-23 and pp. 57-75.

15. See Kwame Ninsin, "Reflections on Socialism and Participation in Ghana." (Mimeo, Department of Political Science, University of Ghana, 1979). See also Maxwell Owusu, Uses and Abuses of Political Power (Chicago: Univ of Chicago Press, 1970).

16. British colonial economic policy was essentially exploitative. The economy was externally-oriented and geared towards the production of cash crops for export, which helped to incorporate the local economy into the expanding world economy and at the same time ensure its unequal position in that system. The colonial economy possessed dual properties. There was a small and highly enclaved export sector dominated by colonial interests that existed alongside a sizeable indigenous sector that was largely pre-capitalist or subsistence oriented. For a fuller account, see Rhoda Howard, Colonialism and Underdevelopment in Ghana (London: Croom Helm, 1978).

17. See Naomi Chazan, " Ghana: problems of Governance and the Emergence of Civil Society." in Larry Diamond et.al (eds) Democracy in Developing Countries (Boulder: Lynne Reiner, 1988), p. 122.

18. The Akan word for government, for example, is `aban' - the fortified seat of power - a reference to the highly fortified seventeenth century Danish-built Christiansborg Castle in Osu that served as the seat of colonial government. Public property is known as `abandea' - it belongs to the aban - with the implication that it can be stolen and/or abused with no consequence. See Baffour Agyeman-Duah, "Ghana, 1982-6: The Politics of the PNDC.' Journal of Modern African Studies, 25, 4 (1987), pp. 614-615.

19. The origin of the appellation `verandah boys' is not clear. According to one interpretation, the term was used pejoratively to refer to the practice by young men who had left their home towns to the city to find jobs, of sleeping on verandahs of the homes of relatives and friends. Interview, Accra, July, 1991.

20. For a fuller discussion of this period in Ghana's anti-colonial struggle, see Wallerstein, I. The Road to Independence: Ghana and the Ivory Coast. (The Hague: Mouton, 1964).

21.These parties included the National Liberation Movement (NLM), with a stronghold among the Asante people, comprised largely of wealthy cocoa farmers and traditional chiefs; the Northern Peoples Party (NPP) representing interests from the country's poorest region; the Togoland Congress representing the Ewe people in east; the Ga Shifimo Kpee representing the Ga-Adange peoples; and the Muslim Association Party.

22. See Crawford Young, "The African Colonial State and its Political Legacy." In Chazan and Rothchild (eds), 1988, pp.25-66.

23. See for example, W. Arthur Lewis, The Theory of Economic Growth (London: Allen and Unwin, 1955).

24. J. Dirck Styrker et al, Trade, Exchange Rate and Agricultural Policy in Ghana. 1990, pp. 39-42.

25. Stryker et. al, Ibid, p.42.

26. See Trevor Jones, Ghana's First Republic, 1960-1966. (London: Metheun, 1976). pp. 260-268.

27. See Naomi Chazan, "Ghana: Problems of Governance and the Emergence of Civil Society." 1988, pp. 121-132.

28. See Bjorn Beckman, Organizing the Cocoa Farmers: Cocoa Politics and National Development in Ghana (Uppsala: Scandinavian Institute of African Studies, 1976). esp. pp. 70-107. In addition to the UGFCC, other organizations that were either created or coopted by the CPP included, the Ghana Trades Union Congress (TUC), the National Union of Ghana Students (NUGS), the Workers Brigade and the Young Pioners.

29. See Naomi Chazan, 1988, pp.122-123.

30. See Benjamin Amonoo, Ghana: 1957-66: The Politics of Institutional Dualism. (London, Allen and Unwin, 1981). Also, Richard Crook, "Bureaucracy and Politics in Ghana: A Comparative Perspective". In Lyon and Manor (eds) Transfer and Transformation: Political Institutiona in the New Commonwealth. (Leicester, 1983).

31. Interview with Dr. Kobina Erbin, Chairman, Ghana Investments centre, Accra, July , 1991.

32. See Roger Genoud, Nationalism and Economic Development in Ghana. (New York: Praeger, 1969). pp. 76-77.

33. This argument is supported by several analyts of Nkrumah's policies during this period including, Killick (1978), Ninsin, (1989), and Hutchful, (1987).

34. Kwame Nkrumah, Ashanti Pioneer (Kumasi), March 5, 1949. Cited by Killick, 1978, p.34.

35. See Eboe Hutchful, The IMF and Ghana (London: Zed Press, 1987). pp. 2-9.

36. Hutchful, 1987, pp.4-5.

37. Killick, 1978, p. 37; Hutchful, 1987, p.5-6.

38. It was only after his overthrow and the publication of Class Struggles in Africa, that Nkrumah fully acknowledged the existence and salience of class struggles.

39. Nkrumah, National Assembly Debates, March 11, 1964. Cited in Killick, 1977, p.37.

40. Interview with Dr. Kobina Erbynn, Accra, July 1991.

41. For a detailed analysis of Ghana's trade regimes through the 1960's, see J. Clark Leith, Foreign Trade Regimes and Economic Development: Ghana. (New York: NBER, 1974)

42. World Bank, Ghana: Industrial Policy, Performance and Recovery, 1986. Part Three, Appendices.

43. Killick, 1978, p.263.

44. See Government of Ghana, "The Foreign Exchange Budget", 1966.

45. Article by `Julius Sago', pen name for the editorial group of The Spark, September 17, 1965.

46. Krobo Edusei, Minister of Industries, speech delivered to the national parliament. Parliamentary Debates February 6, 1962. Cols. 198-199.

47. Killick, 1978, p.266.

48. Killick, 1978, p.266.

49. Killick, 1978, p. 119-120; also, V.K. Nyanteng, The Declining Cocoa Industry: An Analysis of Some Fundamental Problems (Legon: ISSER, 1980) chapter two.

50. The operation of statutory marketing boards which were established to control the marketing of all export commodities including cocoa, timber, diamonds, etc, also created disincentives for export. These marketing boards, the Cocoa Marketing Board, Timber Marketing Board, and Diamond Marketing Board, became havens for patronage and corruption.

51. Killick, 1978, p.120.

52. See Chazan, 1988, pp. 101-102.

53. See Kwesi Jonah, "Changing Relations Between the IMF and the Government of Ghana, 1960-1987." In Hansen and Ninsin (eds), The State, Development and Politics in Ghana. (London: Codesria, 1989) p. 100. see also, Killick, 1978, pp.54-57.

54. Leith, Foreign Trade Regimes..., 1974, pp.31-33.

55. Killick, 1978, p.265.

56. Killick, 1978, p.55.

57. See Killick, 1978, pp. 106-107.

58. The PP government conducted a politically-motivated purge of over 500 public employees, the bulk of whom were from the Ewe and Ga ethnic groups, and refused a ruling by the country's highest court that ordered their reinstatement. By so doing, Busia's PP undermined the independence of the judiciary.

59. See Progress Party Manifesto, August 1969.

60. Ibid, p.5.

61. See Killick, 1978, p.57.

62. Naomi Chazan, An Anatomy of Ghanaian Politics. (Boulder: Westview, 1983). pp.159-61.

63. Between 1967 and 1969, the average world price for cocoa rose by 58% to its highest level in 15 years. The price of E236/ton in 1971 compares favourably with the post-war average of E245/ton. See Gill and Duffus, Cocoa Marketing Report, January 1972, p.24.

64. Since the dollar had itself been devaluaed a few days earlier, the weighted average depreciation against all other currencies was 92%. See J. Clark Leith, Foreign Trade Regimes, pp. 151-152.

65. Leith, Foreign Trade Regimes..., p.154.

66. See Kwame Ninsin, "Introduction: Thirty-Seven Years of Development Experience." In Hansen and Ninsin (eds), The State, Development and Politics in Ghana. (London, Codesria: 1989). pp. 7-9.

67. The term "Bonapartism" is used to refer to the form of state that emerges in a situation of stalemate between contending class interests. See Karl Marx, The 18th Brumaire of Louis Bonaparte.

68. Stryker, et.al. 1990, p. 59-61.

69. Kwesi Jonah, "Imperialism, the State and the Indigenization of the Ghanaian Economy." Africa Development, v.10, 1985, pp.63-99.

70. World Bank, report No. p.3554. "Report and Recommendation of The President of the World Bank To The Executive Directors on a Proposed Credit of SDR 37.0 Million to the Republic of Ghana For a Reconstruction Import Credit". Washington, D.C. June, 1983, p.9.

71. Stryker et.al, p.62.

72. Stryker, et.al, pp.67-68.

73. See Chazan ,1988, p.124.

74. Maxwell Owusu, Politics Without Parties. 1979, pp. 89-109, also, Naomi Chazan, 1988, pp. 108-109.

75. Stryker et.al, p.69-70. and Jonah, 1988, pp.105-106.

76. Naomi Chazan, 1988, p.110.

77. See Emmanuel Hansen and Paul Collins, "The Army, the State and the Rawlings Revolution." African Affairs 79, 314 (1980), pp. 3-23.

78. Some have claimed that the PNP's victory in the 1979 election was ethnically based. This assertion, however, is not supported by the facts. The electoral record shows that the PNP won a majority of seats in seven of the country's nine regions, which was a better showing than any of the other parties. See statement

by Kwesi Botchway, Secretary for Finanace, in People's Daily Graphic, (July 6, 1991, p.8). See also the rejoinder issued by Dr. Limann, President of the Third Republic, to the local and foreign media, on July 15, 1991.

79. See Jerry Rawlings, "Address Before Parliament - Inauguration of Third Republic: 24 September, 1979." See also, "Statement issued by Dr. Hilla Limann, President of the Third Rebublic, to the media, on events surrounding his relationship with Rawlings, p.2. July, 1991.

80. Stryker et.al, p.73.

81. "Ghana: New Economic Package." Africa Research Bulletin, Oct 15-Nov 14, 1981. pp.6214-6215.

82. See "Government of Ghana: Budget Statement and Economic policy for 1981-82." See also Africa Research Bulletin, June 15-July 14, 1981, p.6074.

83. Figures calculated from Stryker et.al, p. 101 table 9.

84. Stryker, et.al, p.74 and table 8, Chaper 5.

85. Interview, Accra, Ghana. July , 1991. Also, see Chazan, An Anatomy of Ghanaian Politics..., p.312.

86. See Africa Research Bulletin. December 1-31, 1981. p. 6282.

87. Naomi Chazan, 1?38, pp. 114-115.

88. See for example, Margaret Keller et.al, Issues and Developments in International Trade Policy. Ocassional Paper # 63 (Washington, D.C.: IMF, 1988). J. Dirck Stryker et.al,Trade, Exchange Rate and Agricultural Pricing Policies In Ghana. (Wash: World Bank, 1990; UNCTAD, Trade Control Measures and Developing Country Trade. (Geneva: UNCTAD/ECDC, March 2, 1988); IMF, Annual Report on Exchange Arrangements and Exchange Restrictions. (Wash: IMF, 1988).

89. Before November 4, 1974, the cedi was linked to the Pound Sterling and enjoyed all the privileges of the sterling area. The New cedi was created on February 17, 1967 with an official rate of exchange of NC 0.71 = US$ 1.00. On July 8, 1967, the New cedi was devalued to NC 1.02 = US$ 1.00. On April 20, 1971, the value was partially cut in order to introduce a 25% bonus on shipments abroad. Following the floating of the US dollar on August 15, 1971, the cedi, through its link to sterling, began to appreciate and on September 15, 1971, the New cedi underwent another partial devaluation.

When Ghana broke the tie between the cedi and the pound sterling and linked the cedi to the US dollar in November 1971, the value of the New cedi was pegged at NC 1.02 = US$ 1.00. Following the dollar's devaluation of 7.9% in terms of gold on December 18, 1971, the New cedi was devalued 48.3% in terms of gold thus establishing a new official rate of NC 1.82 = US$1.00. On February 7, 1972, the gold content of the New cedi was increased 41.8% resulting in a revaluation of the currency to an official rate of NC1.28 = US$1.00. On Febrary 21, 1972, the New cedi was relabeled the cedi, the name in effect before the February 1967 currency reform. Following the devaluation of the dollar on February 13, 1973, the gold content of the cedi remained unchanged, thus realigning the official rate of exchange to C1.15 = US$1.00. In 1978 the cedi was devalued to C2.78 = US$1.00. This official rate was maintained until the PNDC initiated the exchange rate adjustment process in 1983. See W. Asenso Okyere, _the Exchange Rate of the Cedi and International Trade of Ghana_. (Legon: ISSER, 1985). pp. 5-7.

90. See W. Asenso Okyere, _ibid_, p. 3.

91. Interview with former PNP members and officials. Accra, June 22, 1991.

92. See Hutchful, 1989, pp.123-125.

93. See Killick, 1978, chapter six.

94. Kwesi Jonah, 1989, p.101.

95. Mensah, 1971, quoted in Killick, 1978, p.320.

96. See Killick. 1978, Chapters six and nine.

97. For a fuller discussion of foreign economic domination of the Ghanaian economy during this period, see Kwesi Jonah, `Imperialism, the State and the Indigenization of the Ghanaian Economy, 1957-84". _Africa Development_ V.X (3) 1986.

98. The U.K's share of Ghana's trade in 1960 was 36.7% of imports and 31.3% of exports. See Killick, 1978, p.125.

99. See Killick, 1978, pp.104-105.

100. For a detailed account of the Volta River Project, see Fui S. Tsikata (ed) _Essays from the Ghana-Valco Renegotiations, 1982-85_. (Accra: Ghana Publishig Corp, 1986).

101. See Laurence Harris, "Conceptions of the IMF's Role in Africa." In Peter Lawrence (ed), _World Recession and the Food Crisis in Africa_. (London: James Currey, 1986). pp. 83-87.

102. Ghana Economic Survey, 1962 (Accra: Central Bureau of Statistics). p.101.

103. The Statement from the IMF read:

> In order to prevent a further deterioration in the domestic and external situation the Fund considers that there is urgent need to contain domestic, particularly government expenditure. Total government expenditure should be limited to an amount that can be financed from non-inflationary sources. See, Ghana Economic Survey, 1964. (Accra: Central Bureau of Statistics) p.61.

104. Ghana Economic Survey, 1965 (Accra: Central Bureau of Statistics) p.50. For a fuller discussion, see Hutchful, 1987, p.45.

105. See Hutchful, 1987, "World Bank Mission Preliminary Report". p.47.

106. See Hutchful, 1987, pp. 14-16.

107. See Ronald T. Libby, "External Co-optation of a Less Developed Country's Policy making: The Case of Ghana, 1969-72." World Politics,1, 10, (1976), p. 168.

108. See Hutchful, 1989, pp. 123-128.

109. See Hutchful, 1989, pp. 126-128.

CHAPTER FOUR

GHANA: THE POLITICAL-ECONOMY OF POLICY CHOICE, 1982-1990.

Introduction.

This chapter examines in detail the politics and policies of the PNDC from 1982 to 1990 with the objective of identifying and explaining the conditions underlying policy choice and change. The chapter is divided into three sections. The first section begins with an outline of the key trade and exchange policies made by the PNDC prior to the major redirection in April 1983. The analysis then proceeds to examine the external and domestic factors that shaped policy choice during the PNDCs first eighteen months in power, focusing in particular on the conditions underlying policy change.

Section two examines in detail the changes in, and the evolution of, trade and exchange policies that occurred with the commencement and implementation of the government's Economic Recovery Programme I & II between April 1983 and December 1990. Section three, the concluding section, examines the evidence concerning the role of learning in the evolution of Ghana's trade and exchange policies.

[Section One]

The Politics and Policies of the PNDC: January 1982-April 1983.

Four periods are roughly discernible in the politics and policies of the PNDC between January 1982 and December 1990.[1] The first period, Jan-October 1982, was the populist phase. It was marked by intense political upheaval in which the PNDC attempted to redefine the basis of political discourse in Ghana around a radical populist agenda. Economic policy during this period championed anti-imperialism and economic nationalism, reflecting the temporary ascendancy of the radical left-wing in the PNDC. There was also an intense ideological conflict within the PNDC in which various groups and interests were attempting to establish hegemony.

The second period, roughly from October 1982 to April 1983 can be seen as the transitional phase. It was during this period that the decision was made to change policy direction and accept the conditions of an IMF and World Bank-sponsored adjustment programme. This period witnessed the ascendancy of a small cadre of technocrats as policy advisors to the PNDC and was characterized by political demobilization, a purge of the radical elements, and a shift in the ideology of the PNDC towards the right.

The third and fourth phases, the period of political insulation between late 1983 and 1987 and the consolidation phase between 1987 and 1990 are examined in greater detail in chapter five where the analysis focuses on the politics of the implementation of the adjustment programme.

The Populist Phase of the PNDC:

The spiral of economic decline into which the Ghanaian economy had been sliding since the early 1970s did not end with the PNDC coup on December 31 1981. On assuming power after the overthrow of the PNP administration, the PNDC was immediately faced with impending economic collapse. Budget expenditures exceeded government revenues by over 100% and inflation was in triple digits. There were shortages of food, spare parts, and other consumer and intermediate goods. Foreign exchange reserves were depleted, export earnings were their lowest since 1965, and arrears in external debt had begun to mount. In short, the policy problem confronting the government in 1982 was one of severe economic depression. And the consequences generated by this problem had a significant impact on the evolution of the PNDC's trade and exchange policies.

Policy Responses:

Early policy initiatives carried out by the PNDC were reminiscent of the AFRC period. In a televised address to the nation on January 5 and in his first major press conference on January 18 1982, Rawlings declared a "Holy War" on corruption and announced the creation of a National Economic Review Committee (NERC) to review the country's economic condition, but stopped short of unveiling a comprehensive economic package.[2]

The PNDC also sought to reassure the international community by announcing its intention to honour all foreign commitments although individual foreign investments in the country would be subject to review.[3]

Prior to the completion of the report by the NERC, the attention of the PNDC, as far as economic policy was concerned, was directed at weeding out corruption and at achieving short-term economic stabilization. In this regard, as the AFRC had done in 1979, the PNDC began to harrass traders in the markets to free up hoarded goods and depress market prices, and closed the country's land borders to stem smuggling. In addition, a Citizen's Vetting Committee (CVC) (PNDC Law No.1 Feb, 1992) was created to probe instances of personal and corporate corruption and tax evasion.[4] The c50 note (the highest denomination of the currency at the time) was withdrawn from circulation, and converted into loans for the state redeemable over five to ten years, in an effort to mop up some of the excess liquidity. And all bank balances above c50, 000 were frozen pending investigation by the CVC.

Trade and Exchange Policies: The NERC report was issued at the end of May, 1982 in the form of a revised budget for the 1981-82 fiscal year which ended one month after the report was issued. (The original budget for the 1981-82 fiscal year was drawn up by the deposed PNP government). Policy objectives elaborated in this document emphasized self-reliance and self-sufficiency.

Conspicuously absent, however, were any concrete proposals for dealing with the external sector.[5]

The exchange rate was maintained at c2.75 to one US. dollar, a rate that had been unchanged since Akuffu's SMC II devalued in 1978. This is not surprising, since earlier, in April 1982, Rawlings had explicitly rejected devaluation as a policy option.[6] Trade policy continued the protectionism of previous governments, the system of administered import licences was maintained, and price controls were rigorously enforced through the harrassment of traders.

In an effort to streamline the administered trade and exchange regime, the PNDC announced a change in the government's fiscal year from July-June to January-December.[7] This was intended to correspond with the government's annual foreign exchange and import licensing allocations. Under the previous arrangement, foreign exchange and import licenses were allocated in January of each year while the budget statement was not released until July. This allowed for wastage since most foreign exchange and import licenses were issued before the requirements of government departments were known.

The most innovative aspects of this budget were the reductions in interest rates, the introduction of a new cheque-payment system for cash-crop farmers and the provision that all business transactions, government and private, were to be conducted by cheque only.[8] Interest rates were reduced by about 50%, which, with the withdrawal of the c50 notes and the new regulations regarding financial transactions, were intended to encourage capital investment, mop up some of the excess money in circulation and encourage the public to use the banking sector.[9] (It was estimated that as much as c6 billion or about 150% of the budget deficit was circulating outside the banking sector).

The introduction of the new cheque payment system for cash-crop producers replaced the old system in which farmers were issued "chits" - a sort of promissory note with no direct exchange value - in lieu of cash payment. This system was fraught with abuses and corruption by middlemen who very often failed to honour chits. The new cheque system eliminated the potential for abuse by middlemen by guaranteeing payment to farmers through the banks.

Despite the introduction of this new payment system, export policies continued the bias against producers of export commodities. Producer prices of cocoa, for example, were maintained at the c12000/mt set by the Limann administration, which represented about a quarter of what producers earned in 1970.[10]

The significance of the May 1982 budget, then, lies not so much in what was included, but in what was omitted. Despite the recognition of the foreign exchange constraint and the need for foreign exchange, and of the deleterious effects of the gross overvaluation of the cedi, no initiatives were announced with respect to the external sector or to the potential roles of foreign capital. Thus by May of 1982, policy initiatives of the government were directed at achieving short-term stabilization, self-sufficiency and self-reliance. Little if any role was envisaged for private capital, foreign or local. And government priorities were political rather than economic: consolidating its power, institution building and cultivating support among workers, students and the peasantry.

The first statement of a comprehensive macroeconomic package by the PNDC was the Programme For Reconstruction and Development (PFRD) announced on December 30 1982. This document will be examined in some detail since in many respects, it marked the transition in the evolution of economic policy.

The Programme For Reconstruction and Development (PFRD):

The PFRD, a 48-page document, was announced in a televised broadcast by the Secretary for Finance, Kwesi Botchwey. This four year programme (1983-87) was intended to lay the foundations of a nationalist and anti-imperialist strategy of economic reconstruction and transformation. Broad objectives of the PFRD included:

- to restore incentives for production of food, industrial raw materials and export commodities and thereby increase their output to modest but realistic levels;
- to increase the availability of essential consumer goods and improve the distribution system;
- to increase the overall availability of foreign exchange in the country, improve its allocation mechanisms and channel it into selected high priority activities;
- to lower the rate of inflation by pursuing prudent fiscal,

monetary and trade policies;

- to rehabilitate the physical infrastructure of the country in support of directly productive activities;
- to undertake major systematic analyses and studies leading towards a major restructuring of the economic institutions in the country.[11]

With respect to the external and financial sectors, the programme envisaged a large and prominent role for the state. A state monopoly was to be established over import and export trade and the state's share in banking was to be increased from 40 to 80%. According to Botchwey, the objective of creating state monopolies in these sectors was to curb the drain on foreign exchange resources through over-invoicing of imports and through transfers by foreign controlled commercial banks.[12]

With respect to the exchange rate, the PFRD gave no indication that the government was seriously contemplating devaluation of the cedi despite a recognition of the negative consequences of overvaluation.[13] Instead, the programme approached the issue indirectly by the announcement of a new repricing system for imports which was to operate in the context of a state monopoly of the import trade. Although how this system was to operate was not spelt out, the intention was to weed-out the rampant speculation and rent-seeking that had characterised the import trade in Ghana, maintain the system of price controls while at the same time allowing prices to increase to more realistic levels. In effect, the repricing system was a sort of compromise between allowing prices to be determined solely by market forces on the one hand, and administered pricing on the other.[14]

Thus, it was not until the end of 1982 that the outlines of an economic strategy were beginning to emerge. The PFRD as an economic programme, however, was vague and avoided specifying the details of how policy goals were to be achieved. The overall emphasis of the programme was to reduce the foreign exchange drain, improve tax collection, and increase production. Given the size of the budget deficit, reduced import capacity and depleted foreign exchange reserves, however, it was unclear as to how any significant economic reconstruction was to be achieved without substantial capital inflows from abroad.[15] And such inflows were unlikely not only because of the government's apparent hostility towards foreign investment, but also because of the economic distortions created by the overvaluation of the cedi and the government's refusal to devalue.

These factors notwithstanding, within the pages of the PFRD were indications of the major redirections in policy, particularly with respect to trade, the exchange rate, and the system of pricing, that would be announced in the government's April 1983 budget. Before examining the new policies, it is useful to examine the political and economic factors that shaped policy in the PNDC's first year.

Consequences of the Policy Problem, Jan. 1982-April, 1983:

By the middle of 1982, it was evident that the PNDC had very limited options, a consequence of the state of the country's economy. The first year of the PNDC was marked by policy inertia, indecision and political upheaval. The new regime found it difficult to fill several key ministerial and other high government and administrative positions. For instance, the PNDC Secretary for Finance and Economic Planning, (the equivalent of a finance minister) Kwesi Botchwey, was not appointed until May, 1982. And it is symptomatic of the degree of ideological and political dissension within the ranks of the PNDC that the NERC, the economic advisory body established in January 1982, which was comprised mainly of former politicians and technocrats who had served under previous regimes, did not release its recommendations, in the form of a revised budget for the fiscal year 1981-82, until May 1982.[16]

The factors shaping policy choice in the PNDC's first eighteen months can be examined from the perspective of the variables that shape foreign economic policy outlined in chapter two:

1) External Structures: changes in the relationship between the regime and dominant external interests.
2) Domestic Structures: a) changes in the socio-economic support base of the regime; and b) changes in the capacities and cohesion of the political and administrative organs of the state;
3) The definition of the policy problem by key actors in the regime.[17]

For each of these variables, the analysis traces the changes that occurred and attempts to gauge their relative impact on policy, beginning with an analysis of the external environment.

External Constraints and Consequences:

The most significant international developments that had an impact on the PNDC's economic policies were the international recession, the debt crisis and its aftermath, including the elevation of the IMF and the World Bank to levels of prominence they had not enjoyed since their inception in 1944. This prominence reflected a new orthodoxy towards the economic management of the problems of LDCs, in the wake of the debt crisis, in the form of the development (in the West) of an intellectual and policy consensus on the role of the market, that was given expression in the new emphasis by the two institutions on Structural Adjustment.

To obtain a fuller understanding of the changes in the international political economy and its impact on the PNDC's policies in 1982 and after, it is useful briefly to outline the causes of the debt problem and the emergence of the Fund and the Bank as the dominant institutional frameworks for adjustment.

Background to the Debt Problem: Throughout the 1970s, and especially after 1973, developing countries as a whole borrowed heavily to finance their payments deficits. According to World Bank figures, the medium and long-term debt of all LDCs increased from $117 billion in 1973 to $426 Billion in 1980.[18] This mountain of debt was built mainly in the off-shore capital markets [19] and private debt, as a proportion of total debt, increased from 34% in 1973, to 49% in 1982.[20]

The immediate impact of the 1973 quadrupling of oil prices was a severe balance of payments crisis in oil-importing LDCs. Many of these countries, faced with a choice between a swift but painful adjustment which would have entailed a reduction in imports and strict austerity measures, chose instead to finance their deficits through international borrowing. This, combined with the dearth of official sources of credit at the time to give the private capital markets a prominent role in the financing of payments deficits.[21]

Thus between 1974 and 1980, private lenders replaced official sources as the principal intermediaries between surplus and deficit countries. The role of the private capital markets in the recycling of petrodollars was not only accepted, but encouraged by the governments of industrialized countries.[22]

In the wake of the second round of oil price increases in 1979, governments of the industrialized countries, particularly the United States, made controlling domestic inflation through monetary instruments a key priority of economic policy. Such policies were recessionary and led to a slowdown of economic activity in the industrialized North. The results were a reduction in the demand for and prices of LDC exports, increased protectionism, and a steep rise in interest rates to unprecedented levels.[23]

The effects of these developments on the economies of LDCs were nothing short of disastrous. Their export earnings declined relative to the prices of their imports. Debt service obligations rose while the income to service these obligations declined. At the same time, commercial bank lending dried up, and by late 1982, there were widespread difficulties in servicing the mountain of accumulated debt.

The actual onset of the debt crisis is dated from August 1982, with the announcement by the Mexican government of a moratorium on repayments. By the end of 1983, over 30 countries had suspended repayments.[24] Interest rates had risen from 6.6% in 1973 to 11% in 1982 for all debt, and from 9% to 13.1% on debt from private sources. Between 1981 and 1982, the seven largest debtors experienced a collective rise in interest cost of US$5 billion (17%), a fall in export earnings of US$7 billion (9%), and a drop in new lending of US$10 billion (16%).[25]

With the benefit of hindsight, it can be argued that the excessive borrowing by the LDCs in the absence of domestic adjustments to their payments deficits, was imprudent. This argument, however, ignores the fact that the net transfer of resources to the South during that period, was, on balance, favourable, in that it contributed to respectable rates of growth for the LDCs as a whole.[26] A greater responsibility for the debt crisis, therefore, must be borne by the governments of the industrialized countries, whose economic policies in the late 1970s and early 1980s precipitated the crisis. In effect, the burden of adjustment was disproportionately placed on the LDCs.

As far as the commercial banks are concerned, although their activities were instrumental in the development of the debt problem, the reasons for the crisis cannot simply be reduced to the role of these banks. The banks would not have been elevated to such a prominent position had there not been serious deficiencies in the regime governing balance of payments financing, particularly, in the resources and policies of the IMF.

<u>Role of the IMF and the World Bank</u>: The most interesting feature of the decade preceding the onset of widespread debt-servicing difficulties in 1982, is the absence of intervention by governments and by official institutions such as the IMF. The debt problem, in many respects, revealed the inadequacies of the Fund's financial mechanisms for dealing with the financial needs of LDCs, in terms of its available resources and facilities, and the doctrine underlying its lending policies and practices.

A division of labour was established for the Fund and the Bank at Bretton Woods in 1944. The World Bank was charged with the responsibility of financing economic development, and the Fund with the responsibility of providing international liquidity and maintaining a stable exchange rate system.[27]

The IMF's leverage over the economic policies of its member states originated from two sources: first, its "surveillance" over the economic policies of its members, particularly, exchange restrictions, and second, the conditionality attached to its "upper credit tranche" facilities.

IMF surveillance refers to the annual reviews conducted by

Fund staff, in consultation with a member government, of the full range of that member's balance of payments positions, policies and prospects. Originally conducted on a voluntary basis (for fully convertible currencies), the Second Amendment to the Articles in 1977, which became effective in 1978, made such annual reviews mandatory.[28]

The second and more significant source of leverage of the IMF, as far as LDCs are concerned, is the conditionality attached to its facilities. Soon after its inception in 1945, the Fund sought to devise a body of practices and procedures to guide the use of its resources. Although there was uncertainty as to what these practices should consist of, the principle of conditionality was incorporated into the Fund's lending policies in an Executive Board decision in 1952 and by the early 1960s, it had become established practice.[29]

Although there is no mention of it in the original Articles of Agreement or in the subsequent amendments, by 1969, the "Stand-by Arrangement" developed as the main instrument through which the Fund made resources available to members on a conditional basis.[30] By the mid-60s, Stand-by Arrangements (of six to twelve months duration) were virtually the only means by which the Fund extended financial support to members.[31]

The IMF's facilities were originally intended purely for stabilization purposes and its programmes were designed for short-term balance of payments support to cushion the domestic economy from temporary imbalances in its external accounts.[32]

The financial mechanisms of the Fund were thus designed to cope with the payments problems that were typical of industrialized countries. Its Stabilization programmes, under Stand-by Arrangements, were thus predicated on a specific interpretation of payments deficits as stemming primarily from idle productive capacity, or stocks of unsold goods and services which temporary deflationary measures would quickly cure.[33] This demand management emphasis gave rise to the doctrine of "uniformity" on the basis of which the Fund insisted that the origins of a payments deficit had no bearing on the kinds of adjustment measures required.[34]

This was the "old" orthodoxy in the IMF's approach to adjustment. This approach, however, did not reflect nor address the kinds of payments difficulties experienced by LDCs. From the perspective of the latter, the sources of a payments imbalance (i.e., internal or external) was important, and even where the source of the imbalance was internal, the problems were often structurally-rooted rather than transitory, and thus required a fundamentally different approach to adjustment.[35]

In the light of this, it is hardly surprising that the Fund got off to a slow start as far as the needs of developing countries were concerned. In the period 1947-1960 for example, total disbursements by the Fund were approximately $3.7 billion with the smaller industrialized countries as the major beneficiaries.[36] Indeed, prior to 1973, industrialized countries drew the lion's share of Fund resources. Between 1961 and 1973, a period of rapid growth in the world economy, industrialized countries drew 68.9% of total drawings compared with 22.3% for all non-oil LDCs.[37]

The creation of the Compensatory Financing Facility (CFF) in 1963 designed to compensate countries, particularly exporters of primary products, experiencing temporary shortfalls of export revenues over which they had no control, and the Buffer Stock Facility (BSF) designed to stabilise the prices of specified primary commodities, can be seen as precursors of the later facilities explicitly geared towards developing countries.[38]

The origins of the "new" orthodoxy in the Fund's approach to adjustment, can be traced to the creation of the Extended Fund Facility (EFF) in 1974 (designed to offer medium term assistance); the Trust Fund in 1976 (created to provide concessionary loans to eligible LDCs); and the Supplementary Financing Facility (SFF) in 1977 (which provided extra credit to members experiencing very large deficits.[39] These new facilities were created in response to the payments difficulties created by the 1973 oil-price increases. The kinds of payments difficulties experienced after 1973 required adjustment over longer periods and with greater amounts of financing than was provided for under existing Stand-by Arrangements.[40]

The EFF, created to provide medium term assistance, operated under an "extended arrangement" of up to three years, and thus attracted higher conditionality than an ordinary Stand-by. In the decision establishing the EFF, the Executive Board noted two situations in which it would apply: the first focused on structural maladjustments in an economy and the second on a persistently weak balance of payments position which prevented economic development.[41]

As Kahler (1990) and de Vries (1986) note, the creation of the EFF was regarded as a concession tc the LDCs. The EFF did represent a recognition by the IMF of the structural and "supply-side" problems in the payments difficulties of many LDCs.[42] This recognition, however, was partial. Despite similar terminology with structuralist economics, the EFF was predicated on a neo-classical macroeconomic interpretation and this was reflected in the types of measures included: trade liberalization, exchange rate adjustments and price reforms. Moreover, with the EFF came more intrusive conditionality than under an ordinary Stand-by, affecting a broader range of policies.[43]

The results of the new facilities were to increase the resources available to the Fund and to increase the borrowing privileges of members. Members could now borrow 467% of their quota as compared to the 125% that was authorized in the original Articles.[44] Between 1974 and 1981, the IMF increased its lending to LDCs and drawings by the latter doubled between 1979 and 1981 and increased by another 50% between 1980 and 1981. The second oil shock in 1979 acted as a catalyst for change in IMF policies and also increased its prominence. As the international economy moved into recession following the tight monetary policies in the industrialized North, the perception of an impending crisis was heightened. In 1981, and later in 1983, under the new policy of "enlarged access", the maximum a country could borrow from the Fund was increased from 467.2% of its quota to close to 600%.[45]

But was this a case of too little too late? The magnitude of the deficits experienced by this time were simply too great for the Fund's relatively meagre resources. The history of IMF lending had already established the pattern of bias in favour of industrialized countries. In addition, the intrusiveness of the conditionality attached to the upper credit tranche facilities led many LDCs to avoid using them and search for alternative sources of finance in the private capital markets. Prior to 1980, then, what little the LDCs did draw from the Fund was mainly from the low conditionality Oil and Compensatory Financing Facilities.

The evidence thus suggests that prior to 1982, the IMF failed to anticipate the onset of the debt problem, moved too slowly to stave-off the crisis and thereby declined in importance as a guarantor of stability in the international monetary system. This state of affairs led The Economist to characterize the Fund's role in the 1970s as "helpful, steadying - and very marginal".[46] Beginning with the negotiations over the Mexican debt in 1982, however, the IMF was to emerge as the dominant institutional framework for debt refinancing and rescheduling. This framework was infused with the neoorthodoxy regarding the balance of payments adustment process.

The lending policies of the World Bank also came to reflect this new orthodoxy. The Bank's loans were originally targetted towards technical assistance and development aid that was tied to specific projects. The creation of Structural Adjustment Loans (SALs) in 1979 and Sector Adjustment Loans (SECALs) in 1980, however, represented an even greater departure for the Bank than for the Fund. The Bank's SALs emphasized policy-based lending that required changes in domestic economic policies and (political) institutions along market-oriented principles. This new emphasis on the domestic policies and institutions of borrowing countries involved the Bank in conditionality practices that were just as intrusive, if not more so, than the Fund's.[47]

By 1982, then, the Fund and to a lesser extent the Bank, had become major players in the management of the international debt problem in terms of refinancing and rescheduling. The ascendancy of the two institutions and the neoorthodoxy was a reflection of the preferences of the G-five governments which endorsed the market-oriented conservative economic prescriptions, and the commercial banks, fearful that loan agreements would not be honoured. The neoorthodoxy, therefore, was in response to systemic imperatives, motivated by a desire to safeguard the interests of the international financial system and to ensure continued access to LDC markets of Western exports and investment. It was not motivated by a desire to promote the economic interests of the LDCs.

The linchpin of the debt management system was the neo-orthodox definition of Structural Adjustment. This entailed a restructuring of the debtor's economy according to market-oriented principles. And this required leverage that the commercial banks did not possess and the governments of the creditor countries were unwilling to exert. The Fund and the Bank, however, had both the necessary leverage and the semblance of political neutrality to insist on changes in the debtor's economic policies. In addition, through the Consultative Group, chaired by the World Bank, which brought together the major donors of official development assistance (ODA) in the international community, all other forms of bilateral assistance were linked to Fund and Bank programmes. As a result, LDCs as a whole faced a much tighter system of conditionality than ever before.

<u>Impact of the Debt Crisis on Ghana</u>: The effect of the international recession on Ghana was not as dramatic as in other African countries. Unlike other countries, the economic crisis in Ghana did not emerge suddenly in response to an increasingly hostile international economic environment after 1979, but had evolved steadily since about 1970. While other countries had enjoyed some growth in real GDP for most of the 1970s, Ghana's real GDP had declined, or at best, stagnated.

For this reason, it is difficult to ascertain the precise impact of the international recession on Ghana. On the one hand, there is no doubt that economic indicators took a sharp downturn after 1980. On the other hand, most of these indicators had already been in decline since 1970 for reasons that were elaborated in the previous chapter.

For example, from 1980-1983, GDP fell by 20%, and output in all sectors declined considerably from 1980-83. Value added from agriculture declined by 14%, manufacturing by 43%, mining by 17%, and construction by 37%.[48] Similar declines were also recorded in the external sector. Merchandise exports fell by 60% in dollar terms between 1980 and 1983 but this was largely due to the fall in cocoa production from 413,000 tons in 1970 to 159,000 tons in 1983. There was a general fall in export earnings, both in absolute and in relative terms, from about 20% of GDP in 1975 to 6% in 1983. Import capacity was further reduced, but had been falling steadily since 1970. By 1983, the real volume of imports was less than a fifth of its 1971 level.[49]

Furthermore, unlike other countries in Africa, up to 1982, Ghana did not have a serious debt-servicing problem and this was not a major factor in the country's balance of payments difficulties.[50] Ghana's external debt was small both in absolute and relative terms. This was largely a result of the history of economic problems and exchange rate distortions that led to a virtual freeze on new lending. Up to 1982, Ghana received a lower net flow of external resources per capita than other African Countries, an average of $17.6 per capita compared to an average of $45.3 for middle-income oil importing African states.[51]

External medium and long-term public and publicly-guaranteed debt grew at an average of 11% between 1970 and 1980 and actually declined between 1980 and 1982. Total debt outstanding as of December 31 1982 was $1.1 billion or 3.5% of GDP.[52] The debt-service ratio was also quite low amounting to 6.6% in 1982.

In addition, as far as composition of debt was concerned, the most significant proportion was owed to official creditors. The share of official debt increased from 54% in 1970 to 85% at the end of 1982. Private debt, made up almost exclusively of supplier's credits, actually declined from 46% of the total in 1970 to 15% at the end of 1982.[53]

With respect to external constraints, therefore, the impact of the international recession on Ghana was greatest in terms of further weakening the country's foreign exchange position which, as noted in the previous chapter, was already in a precarious state. This was due mainly to the collapse in commodity prices which severely eroded the relatively favourable terms of trade Ghana had experienced for most of the 1970's.[54] The World Bank (1983) estimates that the net barter terms of trade for Ghana's principal exports declined by about 12% per annum between 1979 and 1982.[55] The result was large balance of payments difficulties from 1981 to 1983.

The PNDC and External Assistance, 1982:

If the PNDC had any intention of launching a genuine socialist revolution, it could not have picked a more inopportune time as far as the external environment was concerned. As noted above, the emerging consensus in the international donor community was towards the institutionalization of a market-oriented orthodoxy.

In its first year, the PNDC faced considerable hostility from the OECD countries. This was in large part due to the heavy revolutionary rhetoric of the new regime. The effect was further to lower the country's already low creditworthiness such that with the exception of grants from private non-governmental organizations, little foreign aid was forthcoming. The French government, for example, placed a temporary embargo on Ghana which restricted access to credit from French financial institutions.[56]

To make matters worse, the PNDC normalized relations with Libya, a country that was considered a pariah state not only by the West but also by west African states, and actively cultivated close relations with Cuba. Most west African states, including Ghana under Limman, had severed diplomatic relations with Libya over the latter's subversive actions in Chad and throughout the sub-region.[57]

The reactions by neighbouring states to the PNDC coup and its close ties to Libya were dramatic. Liberia recalled its Ambassador, and Togo and the Ivory Coast closed their land borders with Ghana. Nigeria, which had been in open conflict with Libya over Libyan attempts to carve out a sphere of influence in sub-Saharan Africa, and particularly its intervention in Chad, reacted by suspending oil shipments to Ghana and demanding repayment of $30 million oustanding of a $150 million line of credit as a condition for resumption.[58]

As the effects of the international recession on the already weakened economy deepened, particularly in terms of exacerbating the foreign exchange constraint, and further reducing the already much reduced import capacity resulting in widespread shortages of food, intermediate and consumer goods, the question of foreign assistance became a thorny issue for the PNDC. This resulted in a division in which three positions emerged.

First, there were the radical elements within the PNDC and in its support bases, who advocated seeking assistance from non-OECD countries only. Second, there were the more moderate left-wing elements, who advocated seeking bilateral loans from OECD countries, but rejected any IMF agreement. Finally, there were the technocrats within the NERC some of whom favoured negotiations with the IMF.[59] These three positions will be examined in detail below when the analysis focuses on how the policy problem was defined by key players in the PNDC.

Thus, as far as the external environment was concerned, the most significant constraint on the PNDC's economic policies was the impact of the international recession on the country's balance of payments. The resulting foreign exchange squeeze had the effect of severely limiting the options the PNDC had in terms of achieving domestic economic and political objectives. And it was through this constraint that the leverage of the Fund and the Bank vis-a-vis the PNDC was excercised. However, as the analysis below shows, although the need for external resource flows was one of the primary reasons behind the decision to accept the IMF and World Bank policy package, there were important domestic political changes that also shaped the decision to change policy direction.

Domestic Constraints and Consequences: Jan. 1982-April 1983.

Compopsition of The PNDC:

The PNDC takeover on December 31, 1981, was a narrowly-based coup that was carried out by a relatively small number of military personnel under the direction of Jerry Rawlings and Capt.(rtd) Kojo Tsikata.[60] Although Rawlings enjoyed a considerable measure of personal popularity, people in Ghana were understandably apprehensive about the prospect of another return to military rule. This was especially so, since in the eyes of many Ghanaians, the Third Republic had not been given a fair chance.[61]

The December 31 coup, as has been the case with all previous military interventions in Ghana, was a direct result of worsening economic conditions, and particularly, material contradictions within the state. Although vigorously denied by

Rawlings and his fellow plotters, and justified by the rhetoric of `power to the people' and `grass-roots participation', there is ample evidence that the coup was precipitated by the following factors: the impoverishment of the lower strata within the armed forces (the other ranks and NCOs) who would be the backbone of the regime; and second, the institutional crisis within the armed forces following the purges of senior officers during the AFRC period. The coup was thus a result of the decline in status suffered by the ranks and the NCOs, as a result of the economic crisis which sharpened their grievance against the senior officers and the political establishment.[62]

In addition, the two key plotters of the coup, Rawlings and Capt. Tsikata, had particular grievances against the Limann administration. Rawlings was not only forcibly retired from the armed forces by the PNP administration, he (and Tsikata) were subjected to constant surveillance and harrassment by Limanns's security forces after the PNP took over from the AFRC. These two themes, the institutional crisis of the army, and a sense of personal grievance and unfulfilled ambition, were to figure prominently in Rawlings's first broadcasts to the Nation.[63]

The PNDC was offically created on January 11, 1982 as the supreme political authority in Ghana.[64] Although its establishment proclamation provided for eleven seats on the Council, only seven positions were announced with the proclamation. The seven members, in the order listed in the proclamation were: Flt. Lt. Jerry John Rawlings (Chairman and

Head of State); Brig. Joseph Nunoo-Mensah (member and Chief of Defence Staff); Rev. Dr. Kwabena Damuah (Member); W.O. Class one Joseph Adjei Buadi (Member and coordinator, Armed Forces Defence Committee); Sgt. Daniel Aloga Akata-Pore (Member, and sec. Armed Forces Defence Committee); Joachim Amartey Kwei (member); and Chris Bukari Atim (member).[65]

Although not officially a member of the PNDC until 1986, Capt (rtd) Kojo Tsikata, a long-time confidant of Rawlings, and in many respects the `brain' behind the coup, was second only to Rawlings in terms of power and influence. He played a key role in the acceptance of the IMF programme.[66]

In its original composition, then, the PNDC brought together a strange mixture of individuals with divergent interests and backgrounds.[67] The common thread that appeared to unite these individuals was a desire for change in the established political order. Each of them, including Rawlings, had for different reasons, been involved publicly in some form of protest against established authority. The differences among them, however, particularly in terms of ideological objectives and the translation of these objectives into concrete political and economic programmes, became a source of intense conflict within the PNDC.[68]

One of the key differences between the PNDC and previous military governments in Ghana, was that the PNDC actively coopted civilians into government.[69] In addition to the three civilians appointed to membership in the ruling Council itself, almost all cabinet and other top political and administrative appointments were held by civilians. The heavy representation of civilians, however, did not disguise the fact that the real power behind the PNDC was the military. Its power base lay in the active support from the other ranks and NCOs in the armed forces. Thus although civilians held the top positions in ministries and other government departments, the second-in-command was often from the armed forces.[70]

Political and Administrative Structures:

Politically, the PNDC appeared to be overwhelmed by, and incapable of, controlling the virtually spontaneous formation of grass-roots popular movements, and the expectations its own populist rhetoric had spawned, especially among the urban under classes.[71]

To add to the confusion, there were several coup attempts in October and November 1982, incursions of rebel soldiers from neighbouring countries,[72] and the kidnapping and murder of three senior High Court Judges in June 1982, in which top members of the regime were implicated. This crime seriously damaged the credibility of the PNDC especially after one of its founding members, Amartei Kwei, widely believed to have been made a scapegoat, was subsequently tried and executed for his role in this crime.

It was in the midst of this political upheaval and uncertainty that the PNDC initiated new political structures, ostensibly to increase popular participation in decision making, but in reality to consolidate its hold on power.

In terms of policy making and administration, the most important state organs in addition to the PNDC itself, were the PNDC Committee of Secretaries, equivalent to a cabinet, headed by `PNDC secretaries' who were appointed to head the various state ministries and departments and were directly accountable to the ruling Council. Sixteen secretaries were initially appointed on January 21, 1982.[73] The people appointed included academics, civil servants and politicians from previous regimes, although none of the appointees had been members of the Limann administration. The appointment of these secretaries was not without controversy. Radical organizations supporting the PNDC took particular exception to the appointment of four out of the sixteen secretaries who had been members of political parties proscribed after the December 31 coup. They were accused of being `reactionaries'.[74]

In addition to the Secretariat, new structures of governance were created by the PNDC. Prominent among these new structures was the establishment of Defence Committees in all communities (Peoples' Defence Committees, PDCs) and work places (Workers' Defence Committees, WDCs). An Interim National Coordinating Committee (INCC) was established to coordinate and supervise the activities of these Defence Committees. The INCC was later replaced by the National Defence Council (NDC) as the body that supervised the activities of the PDCs and WDCs. The

Defence Committees were to serve as the basic units of the new state structure.[75]

After initial hesitation, hundreds of PDCs and WDCs were created all over the country. The popularity and spontaneity of these committees demonstrated the desire for popular self-expression and participation in decision making.[76] The overlap with existing political and administrative structures, however, led to conflicts between WDCs, PDCs and existing structures in the work places and in communities. This led to friction in, for example, the labour movement and between the traditional chiefs and some PDCs in local communities.[77]

The absence of clear guidelines and procedures for the Defence Committees also meant that their activities were not always under the control of, or sanctioned by, the PNDC. These committees not only enjoyed a degree of autonomy from the regime but in several instances took actions that threatened the regime itself. In 1982, isolated acts of vigillantism were reported to have been carried out by a few of these organizations. These acts prompted the state-owned Daily Graphic to issue a statement of concern,[78] and forced Rawlings to make a public statement at a May Day rally condeming the activities of such Defence Committees.[79]

The public denunciation of the radicalism of some of the Defence Committees by Rawlings in May 1982, was a harbinger of the shift in the attitude of the regime towards these organizations that would occur in late 1982. Although Rawlings had described these committees as the "new organs of peoples' power", the attempts by the Defence Committees to establish control over certain activities independently of the regime, were viewed with concern and suspicion. In addition, by late 1982, the NDC, which succeeded the INCC as the body supervising the Defence Committees, comprised largely of young radicals and self-styled marxists, was attempting to carve out a sphere of authority that challenged the PNDC. Between October and December, 1982, the NDC together with dissident elements in the armed forces made three attempts at toppling Rawlings.

The first indications of the rift between the NDC and the PNDC surfaced on October 28, 1982, when some NDC members at a meeting of WDCs anounced the overthrow of Rawlings as the chairman of the PNDC and his replacement by Sgt. Akatapore and Chris Atim. Later, on 23 November, unnamed elements in the armed forces attempted to seize control of the government. On 29 November, Akatapore attempted to forcibly overthrow Rawlings in a coup. Finally, on December 16, 1982, the country's 20,000 man army was placed on high alert following reports of an impending invasion by rebel army units stationed in neighbouring Togo.[80]

The response of the PNDC, or what remained of it following the arrest and detention of Akatapore and Atim, was to purge the NDC as well as the membership of the PDCs and WDCs. The latter were reconstituted into Committees for the Defence of the Revolution (CDRs) an emasculated and depoliticized version of the PDCs and WDCs with much of their powers and functions curbed. By so doing, the PNDC redefined the functions of the CDRs and in effect, redefined its position vis-a-vis popular participation and mobilization. The new emphasis was now to be on the socio-economic (i.e., clearing streets and building community projects) rather than on the political (i.e., increased popular participation in decision making).[81]

<u>Support Bases of the PNDC</u>:

In its composition and in its support bases, four key features of the PNDC in its first year should be noted. These four factors had a significant impact on the evolution of economic policy.

First, the coup gave expression to not one, but several `revolutionary' visions of how society was to be transformed. Throughout 1982, conflicts of interests among PNDC members were so great that by the end of 1982, only three out of the original seven members remained. Two members, Brig. Nunoo Mensah and Rev. Damuah resigned; and the other two, Sgt. Alolga Akatapore and Chris Atim, were arrested and detained after organizing an abortive coup against Rawlings. Indeed, by the end of 1983, Rawlings was the only one of the original seven PNDC members to remain in office.

Second, although prolonged economic decline and state decay had alienated virtually every social sector in Ghanaian society, this did not translate into active support for the regime. The PNDC had a very narrow base of support in the wider Ghanaian public. Initially, at least, the PNDC could be seen as an alliance between the military and a small circle of civilians on the political and ideological left.[82] It was essentially an urban-based `revolution' limited to the Accra-Tema metropolitan area. The virtually spontaneous creation of Defence Committees around the country, and especially in the urban areas, signified a desire for popular self-expression and not necessarily support for the regime.[83] The return of Rawlings into politics was greeted with a mixture of fear and sceptism. The little enthusiasm that was expressed came mainly from the urban-based non-establishment groups and organizations that had been cultivated during the AFRC period.

Initial support for the PNDC coup came mainly from left-wing intellectuals, radical elements within the trade union movement, the lower ranks of the armed forces, a small section of the student body, and urban unemployed.[84] The middle class coalitions that had dominated Ghanaian politics since independence in 1957, were purposefully excluded. And the vast majority of the population outside the urban centres were largely ignored.

In its active support bases, the PNDC brought together an unlikely coalition. It was backed by a loose alliance of groups and organizations the most influential of which were the June Fourth Movement (JFM) and the New Democratic Movement (NDM). Each of these groups was, like the PNDC itself, further fractionalised into opposing interests. As Hutchful (1989) notes, these organizations maintained a considerable degree of autonomy from each other and from the PNDC itself with the only tenuous link provided by Rawlings. In such a situation, Rawlings, with the support of the armed forces, was able to play the role of `power balancer.'[85]

The June Fourth Movement, originally under the chairmanship of Rawlings, and later Chris Atim, was created during the FNP administration in honour of the AFRC coup on June 4, 1979 (hence its name). A self-styled Marxist organization, the JFM stated its goal to be the creation of a socialist democracy in Ghana. Although it called itself Marxist, its ideology could be better described as a form of dependency theory that was anti-imperialist and nationalist. Although intended to be a mass-movement, its membership totalled at most a thousand, comprised mainly of students, soldiers and workers.[86]

The leadership of the JFM, with the exception of Rawlings, consisted of university graduates and student leaders from the country's northern and upper regions. Not surprisingly, the movement had the core of its support in these regions of the country and among northerners in the military. All of them were youthful - in their twenties and early thirties. After the December 31 coup, members of the JFM assumed key positions in the PNDC. Other JFM members were appointed to cabinet rank positions in the government and the newly created state organs such as the National Defence Committee.[87]

The New Democratic Movement was created in May 1980 and its membership was drawn from left-wing intellectuals from the University of Ghana, professionals and civil servants in the Accra-Tema metropolitan area. Like the JFM, the NDM, claimed to suscribe to some version of marxism. Unlike the JFM, however, the membership of the NDM was older and, despite their ideological persuasion, were of middle class composition. In addition, the membership of the NDM was dominated by southern and coastal Akan and Ga-Adangbe peoples.

Although Rawlings enjoyed a considerable amount of personal popularity throughout the country, the same could not be said of the PNDC as a whole. The excesses of a few of the revolutionary zealots within its ranks, the harrassment of the public by soldiers and a few Defence Committees, and the deteriorating economy, alienated influential sectors of Ghanaian society including the middle classes, the professionals, the chiefs and even the students.[88] This alienation, by the beginning of 1983, grew into outright hostility.

Third, the establishment of new structures of governance, without dismantling existing structures, exacerbated the institutional dualism of the Ghanaian state created during the Nkrumah years. In addition to the Secretariat, the NDC, and the Defence Committees, new organizations and committees were established to address a variety of social and economic issues from the national to the local levels. The result was a confusing array of overlapping structures, functions and memberships in which it became difficult to ascertain which structure, organization, or individual was responsible for what.

Furthermore, the PNDCs determination to destroy the statist model of governance had a devastating effect on traditional state structures. The PNDC set out systematically to weaken and undermine state organs and the patronage network that had been established, through for example, mass dismissals of public servants involved in corrupt practices.[89] In addition, the PNDC opened up the state to public scrutiny and encouraged popular participation in state administration. The result was a further erosion of the already severely weakened capacities of the state.

The combined impact of the PNDC assault on the administrative wing of the state in its first eighteen months in office had contradictory effects on the state and its relationship with society. While the semblance of popular participation in the state was increasing, the regime itself was becoming more insulated and more autonomous from the broad spectrum of societal demands. This insulation increased as the populist phase in the politics of the PNDC faded. As will be shown in chapter five, the increased autonomy of the PNDC was decisive in the implementation of the ERP.

Fourth, the change in the relationship between the PNDC and the popular organisations exposed the contradictions in the class basis of the PNDC leadership. There was considerable ambiguity on Rawlings's part on the question of grass-roots participation and the explanation is to be found in the ambiguities in his own class position. Some critics on the left have gone so far as to suggest that Rawlings was in reality a counter-revolutionary, who stepped into Ghanaian politics to prevent revolution when the `objective' conditions were ripe.[90]

Without suscribing to the view that Rawlings was a counter-revolutionary, there were indeed ambiguities in his class position. Rawlings, by virtue of his education and military rank, was not part of the working class, but essentially petty bourgeois. In terms of ideology, Rawlings initially associated with radical petty bourgeois organizations (the JFM and the NDM) which provided a conduit to the working classses and a semblance of popular support. As economic conditions deteriorated in 1982, however, Rawlings came to realize that the radical organizations were severely divided, were unable to provide workable policy proposals, and were ultimately without an adequate base to support the regime. The result was a shift in both ideology and the class basis of the regime. The reasons for this are explored below.

Thus, if in 1982, there was some ambigiuty concerning the class basis of the state in Ghana, and about whether the PNDC was pro-working class or not, by mid-1983, it became clear which class, or rather class fraction, was in control of the Ghanaian state - the technocratic wing of the middle class.

Definition of the Policy Problem: Jan. 1982- April 1983.

The definition of the policy problem refers to the way in which policy makers formulate their policy preferences. And this is the key variable that influences policy choice. The way the policy problem is defined is a function of the goals, interests and ideology (the political agenda) held by key policy makers on the one hand, and the constraints (costs and incentives) generated by external and domestic factors, on the other.

The analysis above has detailed the key individuals, groups and organizations, as well as established the broader domestic and external constraints and incentives on policy choice. The analysis below attempts to specify how these constraints impacted on the goals and shaped the policy preferences of the PNDC leading to the decision to accept the IMF and World Bank policy packages.

In its first eighteen months, the PNDC underwent considerable changes in terms of its political complexion and in its definition of the policy problem. These changes corresponded with the two phases identified earlier: the populist phase and the transitional phase. The populist phase, roughly from January to October, 1982, was marked by policy inertia and indecision. The reasons for this can be traced to the inability, at the highest policy making circles, to achieve a consensus concerning the definition of the policy problem and the means of addressing this problem. As will be shown below, although Rawlings and other senior members of the PNDC had a clear intent to reform, as revealed in their public pronouncements and actions, they could not agree on the definition of the policy problem nor on the means and objectives of the `revolution'.

The transitional phase of the PNDC, roughly from October 1982 to April 1983, was the period in which the decision was made to accept an IMF and World Bank supported adjustment programme. It was during this period that a consensus emerged on the definition of the policy problem and the means of addressing it.

The Ideology and Goals of the PNDC:

The Populist Phase: There has been considerable controversy concerning what the PNDCs ideology was. Some scholars have uncritically accepted that the PNDC was a Marxist regime.[91] This perception was also widely held in the West, and particularly by the U.S. government and media.[92] A closer examination, however, reveals that although there might have been some sympathy towards Marxism, Rawlings and other key players were not Marxists, nor even socialist. Indeed, Rawlings had rejected any formal socialist ideology for the AFRC, and in May 1982, rejected the JFMs call for the declaration of socialism as the ideology of the PNDC.[93]

To obtain a clearer picture of how the PNDC defined the policy problem, it is useful to sort out the various conflicting ideologies, goals and interests of the key players. There were two sources of conflict: first, the conflict between the self-styled Marxists and non-Marxists within the PNDC and its support bases; and second, the conflict between the two main radical organizations themselves, the JFM and the NDM.

With respect to the first, there were considerable differences between the type of radicalism of Rawlings and that of the Marxist organizations in the PNDCs support bases. Rawlings's ideology, if it can be called that, was nationalist and paternalistic - a theme that had surfaced repeatedly in his public speehes and interviews since the AFRC period.[94] For example, from June fourth, 1979, through the period of the Limann administration, up to the December 31 coup, consistent references in Rawlings's rhetoric were made to "master-slave" relationships in politics, corruption, exploitation of the peasantry and other working people, and foreign exploitation of the country. Nowhere is any reference made to socialism, marxist or otherwise, in terms of ideology or objectives. To say Rawlings was paternalistic is to say he saw himself as the champion of the oppressed and as a sort of `saviour' of the nation as evidenced in his description of himself and the PNDC as "simple- minded Ghanaians dedicated to the salvation of the nation".[95]

Rawlings's radicalism was thus defined mainly in terms of his opposition to the political and economic status-quo. It was thus a mixture of anti-establishment sentiment, tinged with moralistic and at times religious overtones, and populism, with no coherent ideological underpinnings. In his desire for change, Rawlings was non-ideological and, at least initially, idealistic and a little naive, a fact to which he readily admits.[96] It would not be inaccurate to say that both on June 4, 1979 and again on December 31, 1982, Rawlings had no concrete political agenda by which to translate his ideals into political practice.[97]

In contrast, the kind of radicalism preached by the organizations in the PNDCs support bases, was driven by a particular political and ideological agenda based on the teachings of Marxism and/or dependency theory. Members of these organizations were, in contrast to Rawlings, theoretical and in a few cases, dogmatic. It was the intellectual roots and apparent coherence of, the radicalism preached by these organizations, particularly the NDM and the JFM, that to a large extent accounted for Rawlings's attraction to and close association with them. These organizations provided the intellectual and ideological underpinnings Rawlings's brand of radicalism lacked.[98] And it was during the period of his forced retirement from the armed forces by Limann after the AFRC hand-over to the PNP administration, that Rawlings cultivated his relationship with the intellectual left.[99]

Despite his close association with the intellectual left and his exposure to the teachings of dependency theory, it is doubtful that Rawlings was fully converted.[100] The kinds of appointments made to both the ruling Council itself and to the various state bodies, including the NERC, included individuals whose ideological persuassion was anything but Marxist. These individuals were selected mainly for their experience and technical expertise. Within the ruling Council, the most prominent opponent of the radical left was Brig. Nunoo-Mensah, who, until his resignation in November, 1982, consistently and publicly voiced his concern at what he descibed as the absence of "common sense and pragmatism" in the direction of the PNDC.[101]

This difference between the radicalism of Rawlings and that of the intellectuals in the radical organizations, a source of initial attraction, by late 1982, became a source of friction. As economic conditions worsened and the consequences generated intensified, the ideological and intellectual appeal of the left began to wane. Indeed, their inflexibility, ideological in-fighting, particularly between JFM and NDM members, and above all, their failure to map out a political and economic strategy to deal with the country's problems, undermined their position in the PNDC vis-a-vis other groups and organizations vying for influence.

The essential point to note is that Rawlings, lacking any firm ideological beliefs, was more willing to accept alternative formulas that appeared consistent with his goal of transforming the social, political and economic order in the country.[102] This goal, originally declared by Rawlings on December 31 1981, and repeated on numerous occasions thereafter, was so vaguely defined, however, that virtually any political-economic strategy, could be reconciled as consistent. Indeed, in an interview granted four years into the ERP, in which the issue of an ideological shift in the PNDC was raised, Rawlings replies:

> As for your `left/right' categorizations, I find them simplistic. We are determined to create a more just society in which the interests of the majority are not repressed in favour of a tiny minority... Is that `right', is that `left'?[103]

This ability and willingness to change his political complexion was a hallmark of the later Rawlings who emerged after 1983 and became a major factor in the implementation of the ERP.

Despite Rawlings's denial, there is no doubt that an ideological shift did occur in the PNDC. Initially, the PNDC was strongly influenced by the youthful radicalism of the JFM. However, its brand of radicalism became a source of friction with other organizations such as the NDM, which were also vying for influence in the PNDC.[104] This was the second source of conflict. The influence of the JFM was effectively broken after abortive coup attempts in October-November, 1982, in which several JFM members, including Chris Atim, were implicated.

The key difference between the NDM and the JFM was in their objectives vis-a-vis the country's socio-economic problems and the most effective means of achieving those objectives. Whereas the JFM wanted a rapid transition to socialism and rejected any form of association with foreign capital, the NDM leadership was of the view that the transition to socialism would be more gradual. True socialism could not be achieved if the right socio-economic conditions were not present.[105]

Thus for the NDM, some form of association with international capital was undesirable, but necessary. The precedent often quoted by the NDM leadership, was Lenin's New

Economic Policy (NEP) in which, they argued, the Soviet Union had forged a temporary collaboration with the West in order to build socialism.[106] The relevant question, then, was not whether to accept foreign investment or not, but the kind of foreign investment and the conditions under which it would be accepted.

Thus of the left-wing groups vying for influence in the PNDC, the NDM had the more realistic appreciation of the country's economic problems. The influence of the NDM began to increase after the appointment of several key NDM members to cabinet rank positions in the government. These included Dr. Kwesi Botchwey, a professor of law at the University of Ghana, and an NDM member, to the position of Secretary for Finance in May 1982.[107] For most of 1982, however, it was the JFM that was the dominant influence in the way PNDC defined the country's economic problems since unlike the JFM, the NDM had no members actually sitting on the ruling Council.

Evidence concerning the influence of dependency thinking and of the JFM in shaping the early policies of the PNDC is obtained from a confidential government document entitled "Policy Guidelines For Ministries and Regional Organizations" released in May 1982:

> We must make a preliminary admission that Ghana today is a neocolony...So we should commit the 31 December Revolution to the direct task of achieving economic independence by ensuring a fundamental break from the existing neo-colonial relations. In pursuit of this objective, we must commit this initial stage of the revolution to the national democratic struggle.

And on the same page:

> The aim of this transformation must be first and foremost to break the existing foreign monopoly control over the economy and the social life. We must restructure the country along nationalistic lines to lead us into economic self-sufficiency, self-dependency and genuine economic independence.[108]

The types of policies pursued by the PNDC, up to and including those elaborated in the May 1982 budget which were examined earlier, with their rejection of western aid and emphasis on self-sufficiency and self-reliance, reflected this influence.

The two areas of conflict described above prevented the achievement of a consensus concerning the definition of the policy problem and of the most effective means of resolving the problem. The delay in the release of the 1982 budget and the release of the PFRD in December 1982, a year after the coup, were a result of these conflicts. Thus although the unresolved conflict within its ranks and its narrow base of support meant that the PNDC enjoyed a considerable degree of autonomy, the absence of a coherent and hegemonic ideology, made achieving a consensus on policy direction difficult and crippled any immediate initiatives.

It was not until the demise of the JFM, precipitated by the unsuccessful bids to topple Rawlings in October and November 1982, that a consensus began to emerge on the direction of policy. The irony is that the absence of a coherent ideology, in part responsible for the PNDCs initial indecision, became one of the key factors that facilitated the change of policy.

The Transitional Phase:

The first indications of a shift in policy came with the commencement in May 1982 of secret negotiations between Ghana and the IMF. As noted earlier, as economic conditions worsened and the foreign exchange constraint intensified, divisions arose within the PNDC on the question of foreign assistance.

The JFM, as the dominant influence in the PNDC up to that point, and believing that a quick path to socialism was possible, rejected any form of assistance from Western governments and agencies. In March, 1982, Chris Atim, a member of both the PNDC and the JFM, led a delegation to the Soviet Union, Eastern Bloc Countries and Cuba, in search of massive funding to rehabilitate the economy.[109]

Not surprisingly, aid from the socialist countries was not forthcoming. The Soviets are reported to have told the Ghanaian delegation to seek assistance from the IMF.[110] The failure to obtain any assistance from the socialist countries weakened the position of the radical elements within the PNDC on the question of external aid from the West.

Thus in May of 1982, under authorization from Rawlings, secret consultations began between the government of Ghana and the IMF and western Governments. Ghana's delegation to the secret negotiations was led by Kwesi Botchwey. And the NERC, which had been dissolved after the 1982 budget was prepared, was recalled and instructed to prepare an economic package outlining options that would be used as a foundation for negotiations with the IMF.

(These proposals are examined in detail below).

As noted earlier, the NERC established in January 1982, selected for their expertise, was dominated by technocrats who had served under previous regimes. Prominent among them were Dr. Joe Abbey, an economist who had been financial advisor to Generals Acheampong and Akuffo, Ato Ahwoi, Dr. Abudu, and Dr. Erbynn both economists, and Kwesi Amoako-Atta, who had been Nkrumah's Finance Minister. Dr. Kwesi Botchwey and the governor of the central bank, J.S. Addo, also became members.[111] Because of their association with the financial bureaucracy and the middle class establishment, tensions surfaced between the NERC and the JFM. And indeed, the selection of Kwesi Botchwey as Secretary for Finance in May 1982, represented a compromise between the two factions.[112]

The negotiations were supported by the NERC and their allies in the financial and state bureaucracies, who saw some form of agreement with the IMF as the only way of dealing with the constraints imposed by the fiscal and foreign exchange constraints. This group, as shown in the previous chapter, has historically been in favour of economic liberalization. In addition, the increasing radicalism of the PDCs and WDCs in the factory floors, work places and communities, was a cause for alarm.[113]

The negotiations were also supported by the moderate Marxists in the NDM, who, as noted earlier, believed some form of temporary collaboration with international capital was the only means of building true socialism. Most importantly, the negotiations were sanctioned and supported by the two most important figures in the regime, Rawlings and Capt. Tsikata.[114]

Thus the negotiations with the IMF and other Western donors, were supported, for different reasons and motives, by a strange coalition of technocrats, nationalists and `Marxists'.[115] None of these interests, however, supported the conventional terms of IMF conditionality.[116]

The tensions between the radical and moderate elements within the PNDC and in its support bases, and the political sensitivity of the question of devaluation, were the major reasons for the secrecy. In October of 1982, however, the negotiations were made public. And it was this revelation that precipitated the coup attempts by the radical elements within the PNDC against what they perceived as the betrayal of the `revolution' by Rawlings.[117]

In effect, by the end of 1982, the pro-IMF faction within the PNDC, although growing in influence, was not strong enough to alter the balance of forces within the PNDC. And the radical left, although much weakened after the abortive coup attempts, was still strategically placed in various state organizations and could still command vocal support among some of the urban-based workers organizations. Their resistance could not be ignored. The PFRD which was launched in December, 1982, as the first statement of a comprehensive economic programme, was the product of the initial negotiations between the IMF and Ghana. This document, with its emphasis on nationalizations and state control over the import-export trade, revealed the continuing influence of the radical left, and thus represented a compromise position between the competing views outlined above.

By the end of 1982, it had become clear to Rawlings and other key players in the regime that some form of adjustment was needed, and the major disagreements were over the speed and timing of adjustment and the types of concessions that were to be made to the IMF.[118] There is ample evidence that Rawlings came to realize the inadequacies of existing policy, the need to attract external assistance, and had come to revise his understanding of the nature and causes of the country's economic problems. For example, on policy failure, Rawlings notes:

> By December 31, 1981, our estimated disposable resources available for imports stood at about \$33m. As against this, our outstanding short-term commitments stood about \$348m. It is clear from this alone that we were facing bankruptcy...the estimated disposable resources were hardly sufficient to cover two week's imports.[119]

And on a national broadcast he further suggests:

> The cancer had reached a very advanced stage...when in the first quarter alone of 1981-82 financial year, the projected deficit for the whole year was almost being reached, it was quite clear that we were on a course of self-destruction. Not to apply the brakes and put us back on course would have been foolish.[120]

On the limitations of the self-reliant strategy announced in the May 1982 budget, Rawlings notes:

> Ghana's engagement in the international capitalist system has in no small measure contributed to the country's present predicament...One tempting solution is the complete disengagement of the country's economy from the exploitative capitalist world order... while

> such a solution should be our ultimate aim, it is not a feasible option in the immediate future.[121]

On the causes of the country's economic crisis, Rawlings had come to recognize the role of domestic factors, particularly the factors that had contributed to declines in production. For example, explaining the reasons behind the adoption of the ERP, Rawlings notes:

> An impartial and objective study of the economic facts show clearly that production has declined steadily since 1975. What we have been witnessing is a severe crisis of economic production which has drastically affected our earnings of foreign exchange... Why has it become so profitable in this country to engage in trade instead of production?...The surest cure to our longstanding ailment as a nation is a set of policies that will stimulate production and at the same time discourage unproductive activity.[122]

On the policies of the IMF and the World Bank, Rawlings had misgivings but noted the need to attract foreign assistance:

> I am very much aware that the policies of these two financial institutions are often insensitive to certain aspects of our predicament in the developing world...but no expert has to tell us that a farmer with one tractor does not need to employ ten tractor drivers...I ask you to try and picture the consequences for this country of not injecting the resources that we have obtained through these institutions.[123]

Although recognizing the necessity of some form of adjustment in policy, Rawlings was, by late 1982, still undecided as to whether the costs of restructuring the economy would be sufficiently eased by IMF support to warrant accepting the conditions that would be imposed. The decision to accept the IMF conditions was precipitated by a series of exogenous shocks in late 1982 and early 1983 which threatened the survival of his regime.

Although Ghana was by no means a major debtor, the consequences of the second round of oil price increases and the world-wide recession they precipitated, was the first in a series of exogenous shocks between 1981 and 1983 would cause the economy to grind to a complete halt.

The second shock was a severe drought between 1981-83, that afflicted the entire West African sub-region. By early 1983, the effects of the drought and the bush and forest fires that accompanied the drought, were a severe reduction in food and cash crop output. Also in early 1983, the water levels at the Akosombo Hydroelectric plant, the major electricity generating station in the country, were so low that electricity had to be rationed. This further reduced productivity in the industrial and services sectors.[124]

The third major shock, which occurred in February 1983, was the expulsion and return of about one million Ghanaian migrants from Nigeria.[125] In any economy, even a healthy one, a sudden influx of a million persons is likely to cause severe strain. In an economy that was as sick as Ghana's the immediate impact was nothing short of disastrous.

The combined effects of these shocks was to inject a sense or urgency into the negotiations with the Fund in order to secure external finance. Thus, in addition to the recognition of policy failure and of the necessity of some form of adjustment, political expediency also figured in the decision to seek assistance from the IMF. And in February 1983, an agreement in principle was reached on an economic recovery effort to be supported by the Fund and the Bank.

[Section Two]

Foreign Economic Policies: April 1983 - December 1990.

In its April 21 1983 budget, the PNDC launched its Economic Recovery Programme. In recognition of the need to attract external finance to meet the objective of raising domestic production, the budget was devised specifically to attract economic assistance from the IMF, the World Bank and western governments. In this regard, key aspects of the budget were measures designed to address the overvaluation of the cedi, curb the activities of the rentier class, stimulate export production, and increase government revenue while transferring the costs to consumers.[126] The PNDC, in effect, had to demonstrate to the external agencies and governments its commitment to economic reform before any substantial assistance would be forthcoming. The budget, described by the Secretary for Finance as a "make or break" budget, was devised in the context of the on-going negotiations with the IMF, and was designed to establish Ghana's creditworthiness internationally.[127]

The Negotiations with the IMF and the World Bank:

Without access to confidential Fund and Bank documents, it is difficult accurately to reconstruct what went on during the negotiations. However, information gleaned from confidential interviews conducted in Accra and in Washington, D.C. and from published sources can be used to obtain insights into the various positions at the negotiations.

Negotiations with the IMF, which began secretly in May 1982, became formalised in October, 1982, and in February 1983 an agreement in principle was reached on a major economic recovery effort to be supported by the IMF and the World Bank's Consultative Group. With the IMF, the negotiations centred on Ghana's drawing an amount of SDR 200m under a Stand-by Arrangement, and a further SDR 100m under a Compensatory Financing Facility. With the World Bank, the negotiations centred on reconstruction credits, in the agricultural, transport and export sectors, under the Bank's Sector Adjustment loans.[128]

In consultation with Ghanaian officials, negotiations with the two institutions covered a broad range of policies. The IMF focused on exchange rate adjustments, monetary and fiscal policy and external debt management. With the Bank, negotiations centred on public sector reform, trade liberalization, incentive policies and state divestments and privatization.[129] The negotiations with the IMF were protracted and difficult. The major obstacle to reaching an early agreement was the issue of the grossly overvalued cedi.[130] On the part of the Ghana government, there were, as already noted, substantial differences on this question.

For instance, In August of 1982, the NERC proposed a series of policy measures that it considered necessary to address the country's economic plight and attract assistance from the IMF, the World Bank and the OECD countries. These measures included:

1) devaluation of the cedi to eliminate price distortions and provide incentives to exporters;
2) the phasing out of price controls to eliminate speculation and hoarding by traders;
3) increases in producer prices of cocoa;
4) reductions in the size of the budget deficit; and
5) the elimination or reduction of some government subsidies.[131]

The NERC proposals, however, were rejected by the radical elements in the PNDC, who at that that point in time, still wielded significant influence.[132]

By the beginning of 1983, however, and with the decline in the influence of the radical left, the relevant question for the PNDC negotiating team, was not whether to devalue, but how to devalue and when, and with what supporting measures. Indeed, the question of devaluation was considered so important that the negotiating team, led by Kwesi Botchwey and Joe Abbey, was instructed to focus its preparations on that issue.[133] The system of bonuses and surcharges, described below, was the result of these preparations.

From the perspective of the IMF and the World Bank, negotiations centred on the conditions the PNDC had to meet to qualify for assistance. Between the publication of the April 1983 budget and August 1983, when the first IMF stand-by took effect, a process of `rationalization' occurred in which Fund and Bank staff, in consultation with Ghanaian officials, made changes in policy instruments and targets as a precondition for securing donor finance. This process of rationalization was to ensure that the ERP conformed to the orthodoxy in the Fund and Bank approaches to adjustment.[134] And here, there were considerable areas of disagreement between the PNDC and the IMF.

It is important to note that despite efforts to coordinate their activities, differences also emerged between the positions of the Fund and the Bank. Indeed, some officials in the office of the Bank's Resident Mission to Ghana, resented what they perceived as the Bank's "junior" status in relation to the Fund.[135] And in some policy areas, the PNDC benefitted from the rivalry between the two agencies. Until the commencement of the Structural Adjustment programme in the ERPII in 1987, the Fund was the major influence in the negotiations.

The following were the major areas of agreement and disagreement:

1) Exchange rate: All three parties agreed in principle, on the need for devaluation. The IMF's position, however, was rigid and inflexible by insisting on a massive devaluation. The PNDC, noting the negative political consequences of devaluations in the past, was able, with the support of Bank staff, to win a concession in the form of the multiple exchange rates as a transition to official devaluation. Strong pressure from the Fund, however, led to the discontinuation of this system in October 1983 and its replacement by an official devaluation. Later in 1986, the PNDC was able to win a further concession in the form of the managed foreign exchange auction which will be described below.

2) Price Controls: The Fund and the Bank insisted on the removal of price controls on a wide variety of consumer and intermediate goods. The PNDC insisted on a more gradual programme of price increases and decontrol.

3) Trade Liberalizaton: This issue was so thorny that agreement was not reached until 1986. Prior to that all that could be agreed upon was the lowering of tariff barriers and the streamlining of the import licensing system.

4) Monetary and Fiscal Policy: This was the least controversial issue with all three parties agreeing on the need to reduce the government deficit, increase revenues and investment.

5) Privatization: This was in many respects the most problematic area. Initially, the problem centred on state divestment and reform of parastatals, and later, on what, from the perspective of the Bank, was the PNDC's ambivalence towards the question of private capital.[136]

By August 1983, the process of `rationalization' was, from the perspective of the Fund, sufficiently advanced that it approved a loan of SDR 238.5m under a Stand-by Arrangement and SDR 120.5m under a Compensatory Finance Facility.[137] With the IMF's `seal of approval' secured, other donors began to fall into line. In November, 1983, at a donors' conference chaired by the World Bank, the PNDC was able to obtain a pledge of $150 million for fiscal year 1984.[138] The main items of bilateral aid the PNDC received are examined in the next chapter.

Between 1983 and 1990, the ERP I & II have been supported by seven IMF facilities: three Stand-by Arrangements and one Compensatory Finance Facility between 1983-86; concurrent Extended Fund and Structural Adjustment Facilities in 1987; and an Enhanced Structural Adjustment Facility in 1988. Over the same period, the PNDC also received more than twenty World Bank policy-based loans. Overall, over the duration of the ERP I and II, the PNDC received loans from the Fund and the Bank totalling SDR 1,204m. and US$ 654m. respectively.[139]

<u>Trade and Exchange Policy Reforms Under ERP I & II</u>:

The adjustment process in Ghana has entailed changes in a wide variety of policies but the liberalization of the trade and exchange regime has been the most notable feature. The liberalization of trade and exchange in Ghana, between 1983 and 1990, assumed the following pattern.

The first stage involved sizeable discrete devaluations of the national currency from 1983-86. In the second stage, 1986-88, a foreign exchange auction was introduced. The next stage, which overlapped with the foreign exchange auction, was the absorbtion of the parallel exchange market largely through the legalization of foreign exchange bureaux. The fourth stage, which began in April 1990, was the unification of the exchange markets.

These exchange reforms were accompanied by changes in trade policy involving the streamlining and gradual elimination of import licensing and their eventual abolition in 1989, reductions in import tariffs, and the lifting of virtually all restrictions on payments and transfers for current international transactions.[140] The discussion below provides a largely technical and descriptive summary of the liberalization measures. An analysis of the political economy of implementation of these measures in provided in the next chapter.

<u>**Step One: Trade and Exchange Policy Under a Pegged Exchange Rate Regime**</u>.

Between April 1983 and January 1986, the cedi was devalued in stages from c2.75/dollar to c90/dollar. The new exchange rate policy of discrete currency adjustments was launched with the establishment in the government's April 1983 budget of a system of bonuses and surcharges on foreign exchange transactions. This system was an ingenious way to effect a devaluation but at the same time avoid the negative political consequences that have accompanied devaluations in the past.

<u>The System of Bonuses and Surcharges</u>: Ghana's exchange rate system, although officially classified by the IMF as a flexible system had not been adjusted since the rate of c2.75/$1.00 set by Akuffu's SMC in August 1978. With the system of bonuses and surcharges a multiple rate of exchange was established. The system was designed to tax users of foreign exchange in order to finance bonuses for earners of foreign exchange and thus stimulate the productive sectors of the economy.[141]

In effect, the system amounted to a major devaluation of the cedi and established two rates: for essential imports and foreign payments, the exchange rate moved from c2.75 to c20.60/dollar; and for non-essential imports and foreign payments, the rate moved to c27.20/dollar.[142] These rates yielded a weighted average exchange rate of c24.7/dollar which implied a depreciation of 89% in U.S. dollar terms (or 798% in local currency terms).[143]

Unification of the Pegged system: In October 1983, the system of bonuses and surcharges was terminated, partly because it was cumbersome to administer, but largely due to pressure from the IMF.[144] In its place, the exchange rates were unified at c30/dollar and subsequently this unified rate was adjusted periodically to effect a real depreciation. The last discrete adjustment occurred at the end of January 1986, before the establishment of the auction system, by which time the exchange rate of the cedi had depreciated to c90/dollar.[145]

Trade Policy Reforms: Trade policy reforms in the first phase of the liberalization of trade and exchange under the ERP I involved the streamlining of the licensing system. Prior to October 1986, the import licensing system involved two types of licenses: specific import licenses, which allowed an importer to acquire foreign exchange from the banking system, and special import licenses which required importers to use their own foreign exchange. The issuing of these licenses was controlled under the framework of an annual import programme drawn up by the central bank and other relevant government departments.[146]

In 1985, the special import licenses were streamlined with the shortening of the "negative" list (i.e., goods that could not be imported with that license) and liberalized by the widening of the range of goods that could be imported. As a result, although the restrictions on the kinds and quantities of goods that could be imported were reduced, restrictions remained on importers'access to foreign exchange.[147]

On the export side, major policy initiatives between 1983 and 1986 involved periodic adjustments in the producer prices of the country's major export crops such as cocoa to effect increases in real incomes accruing to producers. Producer prices of cocoa, for example, were raised by nearly 90% from c30,000/tonne in the 1983/84 crop year to c56,000/tonne in the 1984/85 crop year.[148] With the support of a World Bank assisted Export Rehabilitation Programme reforms were designed to assure adequate incentives, improve management, and provide inputs and replacement capital in all the key export sectors, including timber and mining. In addition, under an export earning retention scheme, exporters of non-traditional goods were allowed to retain a portion of their foreign exchange earnings to finance essential raw materials, spare parts and equipment. This ranged from 10% to 45% of export earnings.[149]

Stage Two: Trade and Exchange Policy Under a Floating Exchange Rate and an Auction Market.

By the middle of 1986, despite the sizeable series of devaluations under the pegged regime, the cedi was still considered overvalued as suggested by the large differential still existing between the official and parallel market rates (about 100%) and the deterioration in the net external assets of the Bank of Ghana. In addition, there were implementation problems stemming from institutional bottlenecks and the politicization of the exchange rate, which are discussed in greater detail in chapter five.

In view of this, in September 1986, a move was made from the pegged system of discrete devaluations towards a floating arrangement. The new arrangement, however, did not entail a freely-floating currency whose value was determined solely by market signals, but rather, a two-window system was devised as a transitional mechanism. Under this system, the exchange rate in the first window was fixed at c90/dollar, while rates in the second window were determined by market signals in the context of a weekly auction conducted by the Bank of Ghana.[150]

Foreign exchange transactions under the first window included imports of essential consumer items, pharmaceuticals and petroleum products as well as governmental transactions such as debt-service payments. All other transactions, covering almost two-thirds of external payments and receipts, were conducted through the second window.[151]

The major objective of the auction was to bring about a further depreciation of the cedi. In this regard, the official rate depreciated from c128/dollar at the first auction to c156/dollar at the last auction held in December 1986. And the differential between the parallel and official rates was reduced from over 100% before the auction to between 20-25%.[152]

Between September 1986 and February 1987, the operation of the auction was modified in several ways and on February 19 1987, the two windows were unified at the prevailing official rate of c150/dollar. From February 1987 to April 1990, virtually all foreign exchange transactions through the banking system were conducted at the exchange rate determined by the weekly auction.[153]

Trade Policy: Concurrently with the establishment of the new exchange rate system in September 1986, changes were introduced in the import licensing system in October 1986. These changes involved the elimination of virtually all restrictions on licenses for imports of consumer goods. Unlike the previous system in which access to foreign exchange was restricted to importers with specific licences, under the new system virtually all consumer goods became eligible for foreign exchange funding from the auction. There were still restrictions, however, in that eligibility to bid for foreign exchange at the auction was restricted to holders of valid import (special) licenses or with the approval of the exchange control authorities to make service payments or transfers in foreign exchange.[154]

With the unification of the two windows in February 1987, access to the auction was gradually widened. Additional categories of consumer goods and service payments were added to the list of eligibility for funding from the auction resulting in the further liberalization of the import regime between 1987 and 1989. By February 1988, all exchange restrictions were lifted for imports and virtually all consumer goods became eligible for funding. As a result, the existing administrative arrangements for import licensing became superfluous and with effect from January 1989, the import licensing system was effectively abolished.[155]

Step Three: Absorbtion of the Parallel Exchange Market.

On February 1, 1988, the PNDC established foreign exchange bureaux in an attempt to curb the role of the parallel exchange markets. The first of these went into operation in April 1988 and by early 1990, there were about 180 bureaux operating in the country.

With the establishment of these bureaux, the structure of Ghana's official exchange markets became extremely complex. In effect, from April 1988 to April 1990, Ghana's foreign exchange arrangement involved the coexistence of two foreign exchange markets, the weekly auctions and the foreign exchange bureaux. And prior to the unification of the two markets in April 1990, there were persistent differentials in the rates in the two markets.[156] The bureaux, however, proved quite effective in absorbing the parallel exchange markets.[157]

Step Four: Trade and Exchange Policy Under a Composite Exchange Arrangement.

Since April 27 1990, the exchange arrangement in Ghana has operated along the lines of a composite exchange rate system. Under this composite arrangement, the two exchange markets were unified in the context of a wholesale auction supervised by the Bank of Ghana, in which all authorized dealer banks and foreign exchange bureaux were eligible to participate.[158]

The exchange value of the cedi was determined in the context of a two-tier exchange market that combined the weekly price setting of the wholesale auction market with the interbank and bureau markets. Rates in the latter two markets superseded the auction rate for all purposes other than governmental transactions. By December 1990, the exchange value of the cedi had depreciated to c345/dollar.[159]

Together with the unification of the exchange markets, the remaining restrictions on current international transactions were lifted. By the end of 1990, Ghana's trade and exchange system was almost fully liberalized although the government continued to maintain controls on capital outflows. And since then, steps have been taken towards the restoration of the convertibility of the national currency.[160]

Other Key Policy Reforms in the Adjustment Process.

Price Reform and Decontrol: A key aspect of the liberalization of trade and exchange was the deregulation of prices for consumer items. This entailed a revision in official prices for essential commodities, a reduction in the list of commodities classified as essential and hence subject to price control, and the abolition of state subsidies and distribution controls. In effect, after 1986, the full effect of the adjustments in relative prices through devaluations, were passed on to consumers.

Another key aspect of price reform was the increase, in real and nominal terms, of the prices paid to producers of export commodities such as cocoa. This has been an important aspect of the export rehabilitation strategy under the ERP. Producer prices of cocoa, for example, increased from c12,000/tonne in 1983 to c174,000/tonne in 1989 and to c224,000/tonne in June 1990. This represented the first real increase in returns to producers since 1975.[161]

Monetary and Fiscal Policy: Ghana's trade and exchange reforms were conducted within the framework of demand-restraining fiscal and monetary policies. Fiscal policy between 1983 and 1990 was directed at raising government revenue and savings and lowering the overall budget deficit. Monetary policy, involving highly restrictive credit policies, was designed to reduce inflation and reduce the incidence of government borrowing from the Banking sector. Interest rates, for example, rose from 14% in October 1983 to 26% in 1987.

Public Sector Reforms: Under the structural adjustment programme launched in the ERPII, a prominent role was allocated to reform of the public sector, involving major reductions in the size of the public sector, resource management reforms and reform of state enterprises.[162]

With respect to the size of the public sector, over 46,000 civil servants were removed from the government's payroll between 1987 and 1990. This was accompanied by reductions in the workforce in other public enterprises such as the Cocoa Marketing Board.[163] Public resource management reforms were conducted within the framework of a public investment programme whose primary objective was the rehabilitation of social and economic infrastructure.[164] The reform of state enterprises involved the reduction in the scale of state intervention in directly productive activities via the sale, liquidation or conversion into joint ventures of over thirty state enterprises.[165]

[Section Three]

<u>Conclusion: The Role of Learning in Policy Change</u>.

This chapter has sought to identify and explain the conditions shaping policy choice and change. The interaction of four variables, external and domestic, have been identified as having played a central role in the evolution of trade and exchange policy in Ghana under the PNDC. These variables are:
1) externally, the debt crisis and the institutionalization of the neoorthodoxy in the international economic order, in the wake of the debt crisis, which involved the application to developing countries of a set of policy prescriptions centred on a neo-classical market-oriented view of economic management;
2) domestically, the rapidly deteriorating economic conditions in

Ghana, which exacerbated the fiscal and foreign exchange constraints; 3) the changes in politics of the PNDC, in its composition and in its support bases, which led to a change in ideology and in goals; and 4) the emergence within the state at the highest levels of policy making of individuals and groups who, for various reasons, were more sympathetic to the neoorthodox view of economic management.

Looking at the question of policy choice from the perspective of these variables, there are three plausible explanations for why policy was changed. The first places emphasis on external factors only, the second on domestic factors only, and the third combines factors from the two levels.

Explanation 1: External Factors and Policy Change.

From the perspective of the external environment, the answer to the question of why policy was changed would be to say that the PNDC had no choice but to adjust. Given the need for foreign exchange to meet domestic political and economic objectives and given the neoorthodoxy in the international economy towards market-oriented structural adjustment as a precondition for the mobilization of any foreign economic assistance, the decision to adjust was imposed.

Such an interpretation, which places emphasis on bargaining power and external control over finance, has the advantage of stressing an important component of choice: the role of the external environment in constraining and shaping the range of options available to policy makers. There is no doubt that the range of options available to the PNDC in 1982-83 was to a large extent defined by the emerging international intellectual and policy consensus that was part of the neoorthodoxy.

To focus only on external leverage, however, provides only a limited explanation of the pattern observed in the case of Ghana for two reasons. First, it ignores the sequencing of events; and second, it precludes the possibility of learning.

With respect to the sequencing of events, as the analysis in this chapter has shown, the decision by the PNDC to change policy preceded the negotiations with the IMF and the World Bank and the eventual adoption of the ERP in April 1983. And indeed, it was not until August 1983, that the first Fund Stand-by Arrangement and Bank policy-based Reconstruction Import Credit were forthcoming.

The evidence thus suggests that sometime between May and August 1982, several months before the ERP commenced, the decision was made at the highest policy making circles, to change policy direction and attract economic assistance from the West. The authorization of the secret consultations with the IMF and the recalling of the NERC to draft proposals for negotiations in August 1982, inspite of the resistance of the radical elements, is evidence of this.

The key issue is whether Rawlings and the PNDC approached the IMF primarily because of political expediency (a desperate need for finance) or whether this was prompted by a recognition of the necessity, if not desirability, of at least some aspects of adjustment. As the case evidence presented in this chapter reveals, the decision to initiate talks with the IMF was prompted by a combination of: a) the need for external finance; b) the recognition of the inadequacies of existing policy for dealing with the policy problem; and c) the recognition by Rawlings of the necessity of some of the adjustment policies that the IMF insists upon. The negotiations would not have been initiated if there had not been this prior recognition.

Thus, to place emphasis on external factors suggests that the decision to change policy direction was an adaptive change - policy redirection that involves only a change of means. The analysis in this chapter, however, suggests that the decision to change policy was not simply a case of adapting to a changed external and domestic environment. The decision to change policy involved a change of goals and objectives as well as of means. In effect, there is evidence of some learning on the part of the PNDC.

Thus although external factors were clearly important in the decision to change policy, they do not, on their own, provide an adequate explanation of the pattern observed in the case of the PNDC.

<u>Explanation 2: Domestic Factors and Policy Change</u>.

From the perspective of domestic factors, the decision by the PNDC to change policy direction, was in response to domestic political and economic realities, namely, the collapse of the state's fiscal basis, the foreign exchange constraint and mounting political opposition. This perspective has the advantage of offering insights into the sequence of events leading to the change in policy and suggests the possibility of learning on the part of the PNDC. But for reasons to be explored below, domestic factors on their own cannot provide a complete explanation of the pattern observed in the case of the PNDC.

First, the economic crisis in Ghana was in part precipitated by external events. Second, although the decision to change policy direction was made endogenously, in response to domestic imperatives, the range of options available to the PNDC was constrained by the international policy consensus. And the actual content of the new policies in the ERPI & II, largely reflected this consensus. In this regard, it should be stressed that the recognition by Rawlings of the need for policy redirection did not necessarily translate into an acceptance of the orthodoxy in the Fund and Bank approaches to adjustment. If a feasible alternative could have been found to overcome the foreign exchange constraint, without having to use the resources of the Fund and the Bank, that option would most likely have been chosen.[166] It was here that the external factors had their greatest influence. The only feasible option available, given the circumstances, was the neo-conservative economic prescriptions favoured by the Fund and the Bank.

Thus, the adjustment process in Ghana that commenced in

April 1983 originated from three sources: The PNDC's Programme For Reconstruction and Development, which was announced in December 1982, the IMF and the World Bank. Although the Government claimed that the ERP was simply a continuation of the kinds of economic policies announced with the PFRD, a comparison of the PFRD with the ERPI & II, reveals some similarities as well as considerable differences.

The PFRD, it will be recalled, as with the ERPI & II, placed emphasis on the reform of fiscal and monetary policy, prices and incomes and in the structure of incentives to stimulate production. The most conspicuous differences were in the areas of trade and exchange policies and role of the state in the economy. The PFRD envisaged a prominent role for the state via nationalization of the banking sector, state control over the import-export trade and domestic distribution. In the ERP, however, the role of the state was considerably reduced. In the area of exchange policy, a key aspect of the PFRD which did find its way into the ERP, at least initially, was the system of bonuses and surcharges. Thus, although some aspects of the PFRD did find their way into the ERP, the precise content of the policies in the adjustment process launched in the ERPI & II, were strongly influenced by the orthodoxy in the Fund and Bank approaches to adjustment.

Third, focusing on domestic factors only ignores a critical component of the evolution of economic policy in Ghana, namely, transnational coalition building involving technocrats in Ghana, the IMF and the World Bank. For these reasons, the most satisfactory explanation of changes in policy in Ghana under the PNDC is one that examines the interaction of domestic and external factors.

Explanation 3: External-Domestic Interaction and Policy Change.

From this perspective, the answer to the question of why the PNDC changed policy direction would be as follows. Externally, the emergence of the neoorthodoxy and its application to LDCs in the wake of the debt crisis effectively established the range of options available to a country like Ghana that required substantial foreign assistance. Domestically, the learning process that occurred in the PNDC, a consequence of the deteriorating domestic economy, resulted in the recognition by Rawlings of the inadequacies of existing policy, and eventually, in the ascendancy of a coalition, led by technocrats in the state and financial bureaucracies, who were generally more sympathetic to the neo-conservative policy prescriptions favoured by the IMF and the World Bank. These interests were to forge a transnational coalition with technocrats in the IMF and the World Bank.

As noted in chapter two, learning refers to a process in which policy makers match means and ends in more effective ways to achieve outcomes they desire. This process involves: goal redirection, and/or problem redefinition, and the incorporation of new beliefs or ideology about the policy problem into the definition of interests that motivate policy behaviour.[167]

Thus in the case of the PNDC, to say that learning was a key factor in policy choice there must be clear evidence that the decision to redirect policy was accompanied or preceded by a process of problem/goal change and the acquisition of new beliefs by key members of the regime.

With respect to problem redefinition and goal change, there is ample evidence, despite denials by Rawlings, that the goals of the PNDC changed over time. And with the demise of the radical faction, pragmatism became the order of the day. Two factors were instrumental in changing the goals of the PNDC and the way the policy problem was defined: policy failure and political opposition.

With respect to policy failure it became increasingly obvious during the course of 1982, that the kind of policy measures announced in the 1982 budget were inadequate to deal with the dramatic collapse of the domestic economy.[168] As the quotations presented on pages 236 and 237 reveal, there was a recognition by Rawlings of the strangulating effect of the foreign exchange and fiscal constraints. The nationalist strategy of self-reliance, launched in the 1982 budget, although laudatory in its objectives, was not viable, given economic realities.

With respect to political expediency it was here that Rawlings's ideological position, or lack thereof, played a key role. It was noted earlier that Rawlings lacked a firm or coherent ideological perspective, and his goals were so vaguely specified that virtually any political and economic strategy could be reconciled as consistent. Although by no means technically proficient in economic matters, Rawlings knew that economic conditions had to be improved to retain power,[169] and economic conditions could only be improved by the injection of foreign capital. His increasing impatience with, and ultimate divorce from, the radical left thus stemmed from the fact their political rhetoric contained no concrete economic agenda.[170]

Evidence supporting the above is aptly presented in an interview granted to <u>West Africa</u> in 1987, in which Rawlings notes:

> I don't think my political views have changed at all, in terms of principles and aims. It is more a question of learning to assess what can be attained at a particular point in time, with the resources available, and taking all internal and external factors into consideration.[171]

In addition to goal change, there is also evidence of belief system change in the form of an ideological shift in the PNDC. Reviewing the speeches of Rawlings, a shift is clearly detectable from an early emphasis on foreign exploitation as the primary cause of the country's economic problems, to a new emphasis on domestic attitudes and lack of productivity.[172] Rawlings's new beliefs were strongly influenced by the Ghanaian and foreign technocrats who formed the transnational coalition.

This transnational coalition was forged around the promise of external finance and through the dissemination of economic ideas. Unlike the ideology of the radical left-wing which lacked a coherent economic programme, the market-oriented ideology favoured by the IMF and some of the Ghanaian technocrats not only possessed a relatively coherent set of economic prescriptions, but was also backed by the means to achieve those precriptions - financial and political support from the international donor community. This combination was sufficient to convert Rawlings.

Thus, the learning process that occurred with Rawlings and what remained of the PNDC after the purge of the radical elements was shaped by domestic and external factors. Although the PNDC's goals, ideology and definition of the problem changed primarily in response to domestic imperatives, the new policy goals were to a large extent determined by the international policy consensus.

Substantively, what was learned by Rawlings and other key members of the regime? Did they learn what was required to improve the economic well-being of the country as a whole? Or, was what they learned defined more narrowly in terms of promoting their own interests?

There is no clear-cut answer to this question. On the one hand, there is no doubt that the institutionalization of the new orthodoxy, in the wake of the debt crisis, was in the interests of the G-5 governments and the commercial banks. The entire debt management system, of which structural adjustment was a cornerstone, was designed primarily to prevent a collapse of the international financial system and not necessarily to promote the economic interests of the south. From this perspective, what Rawlings and the PNDC learned, was not necessarily what was in the interests of the country in terms of promoting economic development, but rather, `political maximization'- how to retain power in uncertain political circumstances. For political maximizers such as Rawlings, the principal benefit of the new orthodoxy was the international financial support it brought.

On the other hand, such an interpretation is unsatisfactory for the following reasons. First, assessing the motives or intentions of policy makers is problematic. It is entirely plausible that among the numerous individuals and groups involved in the decision to redirect policy, there were some who genuinely believed that the neo-conservative economic prescriptions were the answer to the country's economic plight.

Second, assessing outcomes is problematic. As will be shown in later chapters, outcomes of the adjustment process in Ghana have been mixed. Depending on what criteria are used or what base-line is chosen, there have been successes and failures.

Third, the fact that the neoorthodoxy and its definition of Structural Adjustment, was designed primarily with the interests of the system in mind, does not necessarily mean that no benefit could accrue to a country like Ghana. There is no doubt that major policy reform was needed in Ghana. And although the IMF-World Bank approach to adjustment may not have been the `best' option, it was the most feasible option, given the circumstances, particularly the pressing need for external finance. Thus although Rawlings and other key policy makers in Ghana may have been motivated by narrow self-interest, and although doubts can be raised about the validity of their acquired beliefs, they must be credited for recognizing the inadequacy of existing policy and structures and the need for reform.

Thus, as noted in chapters one and two, the question of what was learned by Rawlings and the PNDC, should not be assessed in terms of what would solve Ghana's economic crisis. Instead, it should be assessed in terms what would not solve country's economic problems. In this regard, what Rawlings learned was the importance of production, and the historical role of key economic and political constraints that had led to the decline in domestic production, and which if left unchecked, would not assist in economic recovery, namely, the effects of the foreign exchange constraint and of the politics of distribution.

This recognition of the need for reform, whatever the motivation, is important for it underscores an important component of the sustainability of the adjustment process in Ghana: the high degree of commitment to the adjustment process on the part of the PNDC. This issue of sustainability is examined in chapter five.

NOTES

1. This four-phase classification of the politics of the PNDC corresponds with the classification identified by Naomi Chazan. Chazan, however, identifies only three phases: populism (1982-83), adjustment (1983-1987) and consolidation (1987-1990). I have divided the first phase into two periods to better capture the changes that ocurred in the PNDC in its first eighteen months. To see the first eighteen months of the PNDC as simply one phase ignores the important changes that ocurred. See Naomi Chazan, "The Political Transformation of Ghana Under the PNDC." in Donald Rothchild (ed) Ghana: The Political Economy of Recovery (Boulder & London: Lynne Rienner, 1991), pp.21-48.

2. See "Selected Speeches of Flt.-Lt. Jerry John Rawlings. Chairman of the PNDC. Dec. 31, 1981- Dec. 31, 1982". V.1. pp. 4-15.

3. "Selected Speeches..." Ibid, pp. 4-15. See also Africa Research Bulletin, Jan 15-Feb 14, 1982, pp. 6299-6300.

4. See Laws of the Provisional National Defence Council, v.1. Laws 1-12, pp. 15-18.

5. See Economist Intelligence Unit, Quarterly Economic Review: Ghana, No.3, 1982.

6. Economist Intelligence Unit, No. 4, 1982.

7. West Africa, 7 June, 1982, p. 1549.

8. West Africa, 7 June, 1982. pp. 1491 and 1549.

9. West Africa, 7 June, 1982. p. 1491.

10. World Bank, Ghana: Policies and Programme for Adjustment, 1984.

11. See PNDC Two Years. (Accra: Information Services Dept. 1984). pp. 24-25.

12. Financial Times (London), January 5 1983. See also Africa Research Bulletin, December 15-January 14 1983, p.6690.

13. In the section dealing with macroeconomic policy, for example, the PFRD notes the differences between the landed prices of imported agricultural and consumer goods and the wholesale prices of these same goods. In the document there is a recognition that these differences are attributable at least in part to the over-valuation of the cedi. See Africa Reserach Bulletin, Dec. 15-Jan. 14, 1983. pp. 6690-6691.

14. Africa Research Bulletin, Dec. 15-Jan. 14, 1983. pp. 6690-6691.

15. An editorial commentary in West Africa argues that the PFRD suffered from a crucial defect: it was not a budget. Thus as an economic programme, it could launch all manner of measures without having to explain in detail how revenues and expenditures would be juggled. See West Africa 10 January, 1983.

16. The original members of the NERC were: J.L.S. Abbey; Ato Ahwoi, Kobina Erbynn, Dr. Abudu and K. Amoako-Atta. Later members apointed in mid 1982 were the governor of the Bank of Ghana, Ashiagbor, and Dr. Kwesi Botchwey, a professor of Law at the University of Ghana and leader of the New Democratic Movement. Interview with Dr. Kobina Erbynn, Chairman, Ghana Investments Centre, Accra, July 24 1991.

17. See Chapter two, pp. 82-92.

18. World Bank, World Debt Tables, 1983/84.

19. The off-shore capital markets began their rapid growth in the 1960's after the US government limited capital exports for balance of payments reasons. As domestic capital markets were progressively tightened, multinational corporations were forced to look for world-wide financing. This led to the creation of dollar-denominated deposits in London-based branch offices of major commercial banks. The term `Euromarket' is commonly used to refer to all off-shore capital markets.

The distinctive feature of these markets is that they dealt in `eurocurrencies' - bank deposits in any currency that were not native to the country where the deposit was located. The market for these currencies was based in London but extended as far as Asia and included such `havens' as the Cayman Islands. By 1980, these markets had foreign currency holdings of approximately $775 billion. For a fuller discussion, see Charles Lipson, "The International Organization of Third World Debt." International Organization 53, 4, Autumn 1981, pp.605-611.

20. World Bank, World Debt Tables, 1983/84.

21. The huge payments imbalances that were produced by the oil shock created the unusual situation in which oil-producers had surplus revenues to invest, while oil-importers, both developing and industrial were in dire need of financing. Between the surplus and deficit countries, the only vehicles of sufficient size, flexibility, and speed of operation were the commercial banks operating from the off-shore capital markets. These markets accepted deposits from the surplus countries (the oil producers) and used these deposits to make short-term loans to the deficit

countries, hence the `recycling' of `petrodollars'. See Charles Lipson, "The International Organization of Thord World Debt, Ibid, p.605. See also, H. A Holley, Developing Country Debt: The Role of the Commercial Banks, London, 1987).

22. Miles Kahler, "Politics and International Debt." International Organization, 39, 3, Summer 1985. pp.357-82.

23. See, Report of the South Commission, The Challenge to the South, (Oxford, OUP, 1990). pp.55-57.

24. Report of the South Commission, Challenge to the South, 1990, pp.56-57.

25. World Bank, World Debt Tables, 1983/84.

26. See The Challenge To the South, Report of the South Commission. (New York: OUP, 1992), pp.56-59.

27. As set out in its Articles of Agreement, the purposes of the Fund included: the maintenance of international monetary cooperation; the expansion and balanced growth of international trade; the promotion of exchange rate stability and of a multilateral system of payments; and the mitigation of disequilibria in balance of payments. See International Monetary Fund, Articles of Agreement (Washington, D.C.: IMF, 1988).

28. For a discussion of the origins and significance of the Fund's surveillance function, see Louis W. Pauly, "The Political Foundations of Multilateral Economic Surveillance," in International Journal, 2, (Spring 1992) pp. 293-327. See also, Margaret de Vries, The IMF in a Changing World, Washington, D.C.: IMF, 1986. p.219.

29. See Executive Board Decision No. 102-(52/11), February, 1952. In Selected Decisions of the Executive Board Washington, D.C.: IMF, 1991, pp.58-65. See also, Manuel Guitian, Fund Conditionality, 1981, pp.13-14. Under the 1952 decision, a "tranche policy" was devised in which credit would be made available to members in four equal tranches of 25% of the member's quota. A quarter of the quota was paid in gold (the "gold tranche") and the remainder pledged in the member's national currency. Drawings in the gold tranche (25% of quota) were automatic with no conditions attached. Drawings in the remaining three tranches (the "credit tranches"), however, were to be conditional on members committing themselves to explicit conditions regarding the conduct of their national policies.

30. See Joseph Gold, Stand-by Arrangements. Washington, D.C. IMF, 1970. pp. 3-5. The Stand-by Arrangement, which can be described as a line of credit outlining the circumstances under which a member could make drawings on the Fund, embodied a set of policy

proposals set out in a "letter of intent". This letter, prepared by the Fund in consultation with the member country, sets out certain specified targets. Disbursements of funds are tied to specific "performance criteria" which are used to monitor the implementation of the programme. Performance criteria were originally confined to macroeconomic variables and other variables considered necessary to implement specific provisions of the policies adopted under them. See Selected Decisions of the Executive Board, Decision No. 6838-(81/70). Washington, D.C.: IMF, 1991. pp. 127-134.

31. See Decision No. 6056-(79/38) in ibid, pp. 60-62. And decision No. 4377-(74/114) pp. 105-109.

32. Manuel Guitian, Fund Conditionality: Evolution of Principles and Practices, Washington, D.C.: IMF, 1981.

33. See Ismail-Sabri Abdalla, "The Inadequacy and Loss of Legitimacy of the IMF." in Development Dialogue, 2, 1980, pp.38-40. See also Sidney Dell and Roger Lawrence, The Balance of Payments Adjustment Process in Developing Countries., New York: Pergamon, 1980. p.129.

34. Dell and Lawrence, 1980, ibid, p.129.

35. Dell and Lawrence, ibid, 1980. This argument formed the basis of the numerous structuralist critiques of the IMF. See for example, Lance Taylor, Varieties of Stabilization Experience, (Oxford: Clarendon, 1988).

36. See John G. Ruggie, "Political Structure and Change in the International Economic Order: The North-South Dimension," in Ruggie (ed) The Antinomies of Interdependence, (New York: Columbia, 1983) p. 438-442.

37. Figures from IMF, International Financial Statistics, 1947-1981. reproduced in Ruggie (ed), The Artinomies of Interdependence, 1983, p. 439.

38. See Margaret de Vries, The IMF in a Changing World, 1986, pp.221-222. Also, Miles Kahler, "Orthodoxy and its Alternatives: Explaining Approaches to Stabilization and Adjustment," in Joan Nelson (ed) Economic Crisis and Policy Choice, (Princeton: PUP, 1990) pp.38-39.

39. The Trust Fund is legally separate from, but administered by the Fund and had resources that came from profits from the sale of gold owned by the IMF. See Executive Board Decision No. 5069-(76/72). pp. 185-195.in Selected Decisions, 1976.

40. Miles Kahler, "Orthodoxy and its Alternatives", 1990, p.42-43; Manuel Guitan, _Fund Conditionality: Evolution of Principles and Practices_, 1981, p.19.

41. See "Extended Fund Facility". Decision No. 4377-(74/114) in _Selected Decisions of The Executive Board_, 1991. pp.105-109. See also, Miles kahler, "Orthodoxy and its Alternatives", 1990. p.42; Margaret de Vires, 1986, pp.222.

42. Kahler, 1990, p.42; de Vires, 1986, p.222-223.

43. See Kahler, 1990, p.42.

44. IMF, _International Financial Statistics_, 1947-1981.

45. See Ruggie, 1983, _op.cit_, pp.453-455.

46. _The Economist_, "Survey: IMF - Ministry Without Portfolio". September 26 1981, p.16.

47. See Elliot Berg and Alan Batchelor, "Structural Adjustment Lending: A Critical View." World Bank-CPD Discussion Paper No. 1985-21 (January 1985), pp. 9-11; Kahler, 1990, _op.cit_, p.43. See also, World Bank _Adjustment Lending: An Evaluation of Ten years of Experience_, Washington, D.C.: 1988.

48. John Loxley, _Ghana: Economic Crisis and the Long Road to Recovery_, (Ottawa: North-South Institute, 1988) p.1.

49. Loxley, 1988, _ibid_, p.3.

50. See Loxley, 1988, p.7.

51. Republic of Ghana, "Economic Recovery Programme, 1984-86." Report Prepared by the Government of Ghana for the Meeting of the Consultative Group for Ghana. 1983. v.1 p.10.

52. See World Bank, _Ghana: Policies and Programme for Adjustment_, 1983, p.15.

53. World Bank, 1983, _ibid_, p.15.

54. The World Bank calculates that between 1975 and 1979, for example, Ghana's net barter terms of trade (calculated as the world price of cocoa divided by a non-oil developing country import price index) improved by 50%. See World Bank, 1983, _Ghana: Policies and Programme for Adjustment_, p.9.
For reasons that were discussed in Chapter three, however, Ghana did not take advantage of this by increasing export volumes. Export volumes of cocoa and other principal exports

actually declined during this period. See Chapter three, pp. 139-151.

55. World Bank, 1983. Ghana: Policies and Programme for Adjustment. p.9.

56. This embargo was lifted in June 1982. See West Africa, June 7, 1982, p.1550.

57. See West Africa, 7 June 1982, p 1550. See also, Baffour Agyeman-Duah, "Military Coups, Regime Change and Interstate Conflicts in West Africa." in Armed Forces and Society, 16, 4, (Summer 1990), pp. 547-570.

58. Agyeman-Duah, ibid, p.561. There are uncomfirmed reports that Libya was involved in the PNDC coup. Rawlings is reported to have visited Libya shortly before the coup.

59. Confidential interview, Accra, July, 1991. This is corroborated by Matthew Martin, "Negotiating Adjustment and External Finance: Ghana and the International Community, 1982-89," in Donald Rothchild (ed) Ghana: The Political Economy of Recovery, (Boulder & London: Lynne Reiner, 1991) p.241; and Eboe Hutchful, "From Revolution to Monetarism", in Campbell and Loxley (ed) Structural Adjustment in Africa, 1989.

60. Confidential interview. Accra, July 1991.

61. See West Africa 11 January, 1982. pp. 68-71.

62. Eboe Hutchful, "New Elements in Militarism: Ethiopia, Ghana and Burkina," in International Journal, 4, Autumn, 1986, p.811.

63. For example, in his first speech to the nation on December 31, 1981, after recalling the AFRC hand over to the PNP administration, Rawlings notes: "Right after the hand over what have we had? General dismissals in the Armed Forces, divide and rule tactics, sometimes to the point of getting soldiers to shoot themselves..."

And on Tuesday January 5, echoing this theme, Rawlings reveals: "The 31 December action was a joint officer-ranks action and we want to lay it down immediately that those officers who feel they can simply use their rank to exploit other ranks have no place whatsoever in the army... The days of the colonial-type army are over. **Soldiers are also human beings with needs and aspirations, not just tools for some people's oppression.**" Selected Speeches of Jerry John Rawlings, Dec. 31 1981- Dec 31, 1982. p. 1 and p. 5. Emphasis added.

64. See "Provisional National Defence Council (Establishment) Proclamation, 1981." 11 January, 1982. In Laws of the PNDC v.1. Laws 1-12. (Accra: Information Services). pp. 5-14.

65. PNDC Establishment Proclamation, ibid, p.14.

66. Confidential interview. Accra, Ghana. July, 1991.

67. Four of the seven original members were men with military backgrounds. The relationship between Rawlings and Brig. Nunoo Mensah began during the AFRC era when the latter was appointed by Rawlings to the position of Chief of Defence Staff largely because of his popularity among the ranks. Nunoo Mensah was fired during the Limann administration, because of his association with Rawlings, only to be reappointed by Rawlings after the overthrow of Limann. The other two, Akatapore, and Adjei Boadi, were involved with Rawlings in the December 31 1981 coup.

Of the three non-military members, one (Rev. Damuah) was a radical catholic priest who had been barred by the church for his radical populism. Of the two remaining, one was a trade union leader (Amartei-Kwei) who had led union activists in a demonstration against the Limann administration that resulted in the temporary occupation of the Parliament buildings. The final member (Atim) was a former student activist, who had organised student demonstrations against the Limann government.

68. See Hutchful, Eboe. "New Elements in Militarism". in International Journal, 4, (Autumn, 1986). pp. 802-830.

69. See Chazan, Naomi. "Ghana: Problems of Governanace and the Emergence of Civil Society" in Larry Diamind et.al. (eds) Democracy in Developing Countries. p.115. See Also Eboe Hutchful, "New Elements in Militarism" International Journal, v.XLI, 4, Autumn 1986, pp. 802-830.

70. See Baffour Agyeman-Duah, 1987, op.cit, pp.617-618.

71. See Baffour Agyeman-Duah, ibid, p. 618.

72. See Africa Research Bulletin, Dec. 1-31, 1982, pp. 6679-6680.

73. See West Africa, 1 February 1982, p.283. See Also, Africa Research Buletin, Jan, 1-31, 1982, p.6309.

74. See Africa Research Bulletin an 1-31, 1982. p.6309.

75. See PNDC Establishment Proclamation, 11 January, 1982.

76. See Hutchful, 1986, op.cit, p.817.

77. See Daily Graphic, 17 February, 1982.

78. See Daily Graphic, 17 February, 1982. See Also, Agyeman-Duah, 1987, p.620.

79. Jerry J. Rawlings, "Revolutionary Potentials of PDCs", Radio and TV broadcast to the Nation to mark May Day, Saturday, May 1, 1982. In "Selected Speeches of J.J. Rawlings, 1982" p.27.

80. See J.J. Rawlings, "First Year of Holy War", Radio and TV broadcast to the Nation on Thursday December 16, 1982, in Selected Speeches, pp.80-90. See also, Africa Research Bulletin, Dec 1-21 1982, pp.6679-6680.

81. See Naomi Chazan, "The Political Transformation of Ghana under the PNDC", pp. 21-48. See also Kwasme Ninsin, "The PNDC and the Problem of Legitimacy." pp.49-68.

82. Hutchful, 1986, op.cit, p.825.

83. See Ninsin, 1991, op.cit, pp.49-68.

84. See Naomi Chazan, 1988, pp. 115-116. Hutchfull, 1989, pp. 92-94. Emmanuel Hansen, "The Military and Revolution in Ghana." Journal of African Marxists, 2, 1982.

85. Hutchful, 1989, op.cit, p.93.

86. See Donald I. Ray, Ghana: Politics Economics and Society. (London: Francis Pinter, 1986). pp. 40-47.

87. See Ray, 1986, ibid, p.47.

88. See Baffour Agyeman-Duah, 1987, pp.613-642.

89. It is estimated that by the beginning of 1983, barely one-third of the country's top-level administrators were still in the country. See Chazan, 1991, p.25; and Kwesi Jonah, "The Politics of the Brain-Drain in Ghana" (Unpublished Ph.D. Dissertation, 1990).

90. For example, see "Myths and Realities", Profile of J.J. Rawlings by Nii K. Bentsi-Enchill. In West Africa 14 June 1982, pp. 1567-1569. See also Yao Graham, "From GTP to Assene: Aspects of Industrial Working Class Struggles 1982-86." in Hansen and Ninsin (eds) The State, development and Politics in Ghana, (London: Codesria, 1989) pp.43-72.

91. This uncritical acceptance of the marxist-revolutionary character of the PNDC is evident in the work of Donald Ray, Ghana: Politics, Economics and Society, (London: Francis Pinter, 1986). For an excellent critique of Ray, see Yao Graham, "The Fourth `Revolution'", in West Africa, November 24, 1986, pp. 2452-2455.

92. See "The Coup Through American Eyes." West Africa. February 8, 1982.

93. See "Secrets of Rawlings's Rule." New African, March, 1982.

94. See for example, Selected Speeches of Jerry John Rawlings, 1982, 1983 and 1984.

95. Speech By Flt. Lt. J.J. Rawlings, December 31, 1986. West Africa, January 12, 1986, p.61.

96. See "Forward Ever." Interview with Jerry Rawlings by Davina Doughan. West Africa, 9 February, 1987. p. 259.

97. This view is supported by Richard Jeffries, "Leadership Commitment and Political Opposition to Structural Adjustment in Ghana," in Rothchild (ed) Ghana: The Political Economy of Recovery, 1991, pp. 157-171; and by published interviews appearing in newsmagazines. See for example, West Africa, February 1987.

98. For an insightful account of this see Douglas Rogers, "Contradictions that Threaten the Survival of the PNDC". in The Dawn. September 1986. See also, Richard Jeffries, "Leadership Commitment and Political Opposition to Structural Adjustment in Ghana," 1991, pp.160-163.

99. During the period of his forced retirement from the armed forces between Sept. 1979 and Dec. 31 1981, Rawlings and Capt. Tsikata spent a considerable amount of time in the company of left-wing intellectuals at the University of Ghana.

100. James Ahiakpor (1982), however, suggests that Rawlings did convert to dependency theory. See Ahiakpor, "The Success and Failure of Dependency Theory: The Experience of Ghana." International Organization, 39, 3, (Summer 1985) pp.535-552.

101. See James Ahiakpor, 1985, ibid.

102. See "Resisting Injustice" Radio Broadcast to the Nation, Thursday December 31, 1981. In Selected Speeches of J.J. Rawlings. December 31 1981-Dec. 31, 1982. p.1-3.

103. Interview with Rawlings, West Africa, February 9 1987, p.259.

104. Interview, Accra, June, 1991. See also Ray, 1986, p.41.

105. Interview with NDM member. Accra, July 1991. Also, interview with Kwesi Botchway, West Africa 12 Jan. 1987, pp. 63-64. See Also Hutchful, 1989, pp. 102-103; Ray, 1986, pp. 50-51.

106. See for example, Botchway's statement in an interview granted to West Africa. 12 Jan. 1987, p.64.

107. Other key NDM members appointed to key positions included: Kwamena Awhoi, also a lecturer at the University of Ghana, appointed to the position of Sec. for Local government. Mr. Tsatsu Tsikata, also a law professor, appointed to the NERC; and Ato Ahwoi, an economics professor, appointed to the NERC.

It is also important to note the close personal friendships and family relationships that characterized the association between Rawlings and members of these organizations. In many respects, these friendships were the key to the influence of these organizations over the PNDC, particularly as far as the NDM was concerned. For example, key NDM members, Tsatsu Tsikata and Fui Tsikata, brothers, were cousins of Capt. Kojo Tsikata, who as noted earlier, was a the power behind the PNDC. Also in the NDM were the brothers Kwamena and Ato Awhoi, who would also play key roles in the PNDC, the former as Secretary for Labour and Social Welfare and the latter as an economic advisor to the PNDC in the NERC.

108. Provisional National Defence Council, Policy Guidelines For Ministries And Regional Organizations. Restricted Document. May, 1982. p.2.

109. Donald I. Ray, 1986, op.cit, p.105.

110. Interview, Accra, July, 1991. See Also, West Africa, July 25, 1985.

111. Interview with Dr. Kobina Erbynn. Accra, July 16, 1991.

112. Interview with Dr. Kobina Erbynn, Accra, July 16 1991.

113. See Hutchful, 1989, op.cit, p.103.

114. Interview, Accra, July, 1991. See Also Hutchful, 1989, p.102-103.

115. Hutchful, 1989, op.cit p.103.

116. Hutchful, 1989, op.cit, p.103. Also, Matthew Martin, 1991, pp.240-41.

117. Interview with Dr. Kobina Erbynn, Accra, July 1991.

118. This was confirmed in an interview with Dr. Kobina Erbynn. Accra, July 1991.

119. Radio and TV Broadcast to the Nation. Thursday July 29, 1982, in "Selected Speeches of J.J. Rawlings" v.1. p. 42.

120. Radio and TV Broadcast to the Nation, December 31, 1983, in "Selected Speeches of J.J. Rawlings," v.2, p.65.

121. Speech by Rawlings at a National Seminar on an Economic Recovery Strategy. Jan. 19, 1983. In "Selected Speeches of J.J. Rawlings," v.2, Part II pp.3-4.

122. Radio and TV Broadcast to the Nation, May 2 1983. In "Selected Speeches of J.J. Rawlings," v.2, p.17.

123. Radio and TV Broadcast to the Nation, January 2, 1990, in "Home Front," p. 20.

124. See West Africa, 14 February, 1983. pp. 382-385.

125. See West Africa, 14 February, 1983. pp. 383-385.

126. West Africa, May 2, 1983, p.1051.

127. See "PNDC Budget Statement and Economic Policy For 1983", p.1; and West Africa, May 2, 1983, p.1051.

128. See Africa Research Bulletin, February 15-March 14 1983, p.6762.

129. See Hutchful, 1989, op.cit, p.105. See Also Matthew Martin, 1991, op.cit, p.239.

130. Confidential interview, Accra, July, 1991.

131. Interview, Accra, July, 1991. See also Jon Kraus, "The Political Economy of Stabilization and Structural Adjustment in Ghana." 1991, pp.124-125.

132. Confidential Interview, Accra, July 1991. See also, Jon Kraus, 1991, op.cit, pp.120-121.

133. Confidential interview. Accra, July 1991. This evidence is corroborated by Mathew Martin, "Negotiating Adjustment and External Finance." in Rothchild (ed) Ghana: The Political Economy of Recovery, 1991, p.236.

134. See Hutchful, 1989, pp.105-106; Martin, 1991, pp.237-38.

135. Confidential interview, Accra, July 1991.

136. Interview with Silvio Cap'uongo, World Bank Resident Representative to Ghana, July 11, 1991.

137. Republic of Ghana, "Economic Recovery Programme 1984-86: Review of Progress in 1984 and Goals for 1985-86." Report Prepared by the Government of Ghana for the Second Meeting of the Consultative Group for Ghana. Paris December 1984, Accra, November 1984, p.ii.

138. Republic of Ghana, "Economic Recovery Programme 1984-86" ibid, pp.ii, iv, annex table 13; Africa Research Buletin, Nov. 15-Dec. 14, 1983, p.7077.

139. See Government of Ghana, "Enhancing the Human Aspect of the Adjustment Programme." Report Prepared by the Government of Ghana for the Sixth meeting of the Consultative Group for Ghana. Paris, May 14-15, 1991. tables 7, 8 & 9. See also, Matthew Martin, "Negotiating Adjustment and External Finance: Ghana and the International Community, 1982-1989." in Rothchild (ed) 1991, pp.235-36; and Ishan Kapur et.al., Ghana: Adjustment and Growth, 1983-91. IMF Occasional Paper #86. Washington, D.C.: IMF, 1991, p.2.

140. Ishan Kapur et.al, 1991, p.2.

141. The base exchange rate of c2.75/1.00$ was maintained at face value and the bonuses and surcharges were applied on top of this face value. Bonuses were awarded to two categories of exports: a lower rate of 7.5 times face value on foreign exchange earned by exporters of cocoa and cocoa products and other traditional exports such as minerals and timber. The second category of exports, which were awarded a bonus of 9.9 times face value, included foreign exchange earned from the export of non-traditional commodities such as manufactures. On the import side, users of foreign exchange were taxed surcharges at two rates: a lower rate of 7.5 times face value was applied to importers of petroleum imports, raw materials, and certain food products. The higher surcharge of 9.9 times face value was applied to importers of non-oil imports, and services such as private unrequited transfers, to which an additional 5% tax was applied. For a fuller explanation, see "PNDC Budget Statement and Economic Policy for 1983." pp.2-4. See also, Africa Research Bulletin, April 15-May 14 1983, pp.6843-6845.

142. See Africa Research Bulletin, April 15-May 14, 1983, p. 6844; West Africa, May 2 1983, p.1051.

143. Ishan Kapur et. al., Ghana: Adjustment With Growth. IMF, 1991, p.18.

144. This observation is made by Hutchful, 1989.

145. Ishan Kapur et al., 1991. p.18.

146. See World Bank, Ghana: Industrial Policy, Performance and Recovery, 1986, pp.25-28.

147. Ishan Kapur et.al., 1991, p.18. See also, Loxley, 1988, p.12-13.

148. Government of Ghana, Economic Recovery Programme, 1984-86." Report Prepared by the Government of Ghana for the Meeting of the Consultative Group for Ghana, Paris. November 1983. (Accra, October 1983) p.19; Government of Ghana, "Progress of the Economic Recovery Programme, 1984-86 and Policy Framework, 1986-88." Report Prepared by the Government of Ghana for the Third Meeting of the Consultative Group for Ghana, Paris November 1985, (Accra, October 1985) p.2.

149. Government of Ghana, "Progress of the Economic Recovery Programme 1984-86 and Policy Framework, 1984-86." Accra, 1985. p.2; World Bank, Ghana: Managing the Transition, November 1984, pp.5-7; World Bank, Ghana: Towards Structural Adjustment, October 1987, pp.1-3; John Loxley, Ghana: Economic Crisis and the Long Road to Recovery, 1988, p.13.

150. IMF, Ghana: Adjustment With Growth, 1991. p.19.

151. Loxley, Ghana: Economic Crisis and the Long Road to Recovery, 1988, p.13. IMF, Ghana: Adjustment with Growth, 1991, p.19.

152. Republic of Ghana, "PNDC Budget Statement and Economic Policy for 1987"; IMF, Ghana: Adjustment with Growth, 1991, pp.19-20.

153. Republic of Ghana, "PNDC Budget Statement and Economic Policy for 1990," pp. 13-17.

154. Ishan kapur et.al., 1991, p.19. World Bank, Ghana: Industrial Policy, Performance and Recovery, 1986, pp. 35-39.

155. Republic of Ghana, "PNDC Budget Statement and Economic Policy for 1990," pp. 15-16. Ghana: Adjustment With Growth, IMF, 1991, p.20.

156. In April 1988, when the first foreign exchange bureau became operational, the highest selling rate was c270/dollar and the differential between this rate and the auction selling rate ammounted to about 30%.

157. Ishan Kapur et.al., 1991, pp.20-21.

158. The wholesale auction system was conducted on the basis of the Dutch pricing system. See Republic of Ghana, "PNDC Budget Statement and Economic Policy for 1991," p. 39.

159. Ishan kapur et.al., 1991, pp.23-24.

160. The concept of currency convertibility is quite ambiguous. As used here, convertibility refers to the unrestricted and non-discriminatory right of residents of a country to use their

national currency to effect payments and transfers for current international transactions. The cedi lost its convertibilty in the early 1970s.

161. Republic of Ghana, "Enhancing the Human Impact of the Adjustment Programme," Report Prepared by the Government of Ghana for the Sixth Meeting of the Consultative Group for Ghana, May 1991. p.18.

162. See World Bank, Ghana: Public Expenditure Review, 1989-91, Report No. 7673-GH. Oct. 30, 1990.

163. World Bank, Trends in Developing Countries: Ghana, Washington D.C.: World Bank, 1990. p.224. The public sector retrenchment excercise is discussed in greater detail in chapter five.

164. Republic of Ghana, "National Programme for Economic Development". (Revised). Accra, July 1987, pp.24-25.

165. Republic of Ghana, "Progress of the Economic Recovery Programme 1984-86 and Policy Framework, 1986-88." Report Prepared by the Government of Ghana for the Third Meeting of the Consultative Group for Ghana. Paris, November 1985. Accra, October 1985. pp.2-3.

166. Interview with Dr. Kobina Erbynn. Accra July 16, 1991.

167. See Chapter two, pp.84-104.

168. Interview with Dr. Kobina Erbynn, Accra, July, 1991.

169. Confidential interview, Accra, July 1991.

170. Interview with Dr. Kobina Erbynn, Accra, July 16, 1991.

171. "Forward Ever", interview with Flt.Lt. Jerry John Rawlings, PNDC Chairman. West Africa February 9, 1987, p.259.

172. See qoutations on pp. 228-229. For a fuller account, see "Selected Speeches of Jerry John Rawlings", 1982-1990.

CHAPTER FIVE

GHANA: THE POLITICAL ECONOMY OF POLICY IMPLEMENTATION

Introduction.

The previous chapter examined the factors shaping policy choice in Ghana from 1982 to 1990. This chapter shifts the focus of enquiry to the issue of policy implementation with a view to identifying the factors that contributed to the political sustainability of the PNDC's economic reforms.

The chapter is divided into three sections. Section one provides a general overview of the implementation record of the ERPI and II (1983-90) and specifies the key structural and leadership factors that contributed to the sustainability of the programme. Section two details the political costs and risks engendered by the programme, the key socio-economic groups and sectors affected, and the way in which these costs and risks were managed by the PNDC. Section three is the concluding section.

[Section One]

THE IMPLEMENTATION RECORD OF THE ERP I AND II, 1983-90:

This section provides, first, a summary of the major components of the adjustment process in Ghana; and second an overview of the implementation record and a summary of the factors that contributed to the sustainability of the reforms. Fuller arguments and evidence are provided in section two.

I. The Major Components and Objectives of the Adjustment Process.

The PNDC's Economic Recovery Programme was implemented in two phases. The first phase, the ERPI, launched in the April 1983 budget, was a neoorthodox package that included a combination of fiscal adjustment, demand management, trade policy reform and liberalization. Table 2 below summarizes the major components of the adjustment process launched in the ERP I between 1983 and 1986 and the structure of conditionality attached to the various policy areas.

Table 2
Ghana: Phasing of Adjustment, 1983-86

Policy Area	ERP I: Phase and Conditions		
	Stabilization Phase 1983-84	Rehabilitation Phase 1984-85	Liberalization Phase 1985-86
Trade Policy.			
Exchange Rate	x	x	x
Trade Restrictions	0	0	x
Export Promotion	0	x	x
Price Reform	0	x	x
Monetary & Fiscal Policy.			
Tax Reform	x	x	x
Interest Rate	0	x	x
Budget/Expenditure	x	x	x
Wages and Salaries	x	x	x
Sector Policies.			
Agriculture	0	x	x
Industry	0	x	x
Financial Sector	0	x	x
Private Sector	0	0	x
Public Investment	0	0	x

Legend: x = Initiate and sustain action. Conditions attached to implementation. 0 = No immediate action required. No conditions attached.Sources: IMF and World Bank Annual Reports, various issues 1934-87. World Bank, Ghana: Policies and Programme For Adjustment, 1984, Adjustment Lending: An Evaluation of Ten Years of Experience. 1988.

The ERP I was set in a four year time frame (1983-86) divided into three phases: Stabilization, Rehabilitation and Liberalization. The first year, calendar year 1983, was devoted to Stabilization, to prepare the groundwork for the launching of a three year medium-term adjustment programme, 1984-86.[1] The types of policy and institutional reforms, and the conditions attached to implementation, were sequenced according to the phases, with the percentage of conditions and the policy areas covered by those conditions greatest in the liberalization phase.

Specific objectives of the ERP I were:

1) to restore incentives for production of food, industrial raw materials and export commodities and thereby increase their output to modest but realistic levels;

2) to increase the availability of essential consumer goods and improve the distribution system;

3) to increase the overall availability of foreign exchange in the country, improve its allocation mechanism and channel it into selected high priority activities;

4) to lower the rate of inflation by pursuing prudent fiscal, monetary and trade policies;

5) to rehabilitate the physical infrastructure of the country in support of directly productive activities; and

6) to undertake systematic analyses and studies leading towards a major restructuring of economic institutions in the country.[2]

The Stabilization phase of the ERP I focused mainly on macroeconomic targets and policy instruments relating to the country's external and internal deficits. The overall objective was to reduce the country's long-standing balance of payments deficits and payments arrears by stimulating exports and restraining demand for imports. Key policy instruments in this regard were changes in relative prices by way of large and frequent devaluations of the national currency and by the elimination of domestic price controls and subsidies.[3]

A medium-term term adjustment programme followed Stabilization under the ERPI and was subdivided into rehabilitation and liberalization phases. During the rehabilitation phase, the emphasis was on improving capacity utilization by rehabilitating existing assets, and liberalization entailed a reduction of government intervention in the economy through the relaxation of trade restrictions.[4]

The second phase of the programme, the ERP II, launched in the 1987 budget, covered the period 1987-89. At the core of the ERP II was a Structural Adjustment programme, which had as its key macroeconomic targets, sustained growth in GDP, reduction of inflation, and rehabilitation of physical and productive infrastructure.[5] Specific objectives of the ERP II included:

1) to sustain economic growth at between 5 to 5.5% per annum over the medium term;

2) to increase the level of public investment from about 10% of national income to about 25% by the end of the decade;

3) to increase domestic savings from about 7% of GDP at the end of ERP I to about 15% by the end of the decade;

4) to further improve the management of resources in the public sector; and

5) to effectively mobilize the resources thus generated to improve the social and overall well-being of the people of Ghana, particularly the underprivileged, deprived and the vulnerable.[6]

The Structural Adjustment programme launched in the ERP II, was implemented in two phases and covered a wide variety of instruments and targets. The programme comprised policy and institutional reforms in the areas of trade and exchange rate management, the cocoa sector, public resource management, state enterprises reforms, financial sector policies and private sector development.[7]

Thus overall, the objectives of the Stabilization and Structural Adjustment programmes launched under the ERP I & II were first, to arrest the steep decline in the economy that had begun since about 1970; and second, to lay the foundations for self-sustaining growth over the medium term with the ultimate goal of creating a "growth-oriented, competitive, efficient and integrated economy."[8] In the concluding chapter, a brief assessment is made of the extent to which these objectives have been met.

II. Overview of the Implementation Record.

The implementation record of the ERPI and II reveals that the PNDC achieved a remarkable degree of compliance with Fund and Bank conditions. For each phase of the ERPI, for example, the PNDC was able to implement the policy instruments although several key targets relating to inflation and the current account, were not met (see table 3). The ERPI ran into problems in the liberalization phase (1985-86) reflecting the greater number and stringency of conditions attached to instruments and targets, inadequate financing, and the increased social and political unrest engendered by the costs of adjustment.

In its efforts to implement the ERPI, the PNDC faced considerable political challenges. Between 1983 and 1986, the government had to weather numerous coup attempts and contend with mounting and increasingly vocal protest from politically significant sectors of society. These protests were mainly centred in the urban areas and came from those sectors which were supposedly most adversely affected by adjustment - civil servants and other wage and salaried workers.

Table 3
Ghana: Adherence to Policy Targets, 1983-85

Policy Area	Before		Programme Targets			Actual		
	81	82	83	84	85	83	84	85
Real GDP	(Annual Percentage Increase)							
	-1.8	-7.2	1.7	5.4	5.3	-4.7	8.7	5.1
Current Acc. Deficit	(Percent of GDP)							
	0.6	...	3.0	...	...	0.3	1.0	2.3
Inflation	(Annual Percentage Changes)							
	116.5	22.3	50.0	35.0	20.0	123.1	39.7	10.3
Govt. Deficit	(In Percent of GDP)							
	5.2	4.6	3.1	2.2	3.6	2.7	2.1	2.5

Sources: Fund Documents.

Between 1985-86, the PNDC was forced to reverse aspects of the conditions attached to wage policy by increasing public sector wages in the face of widespread protest at the austerity. The IMF reacted, in April 1986, by suspending disbursements under the second stand-by arrangement. And the Bank, following the

Fund, delayed by 90 days disbursements of its sector loans. As a result, the PNDC scaled-down the overall programme by 22%, from US$5.3b to $4.15b, due to shortfalls in the amount of external assistance.[9]

Indeed, in late 1986, the PNDC came close to abandoning the adjustment programme altogether.[10] The programme was `saved' by negotiations and greater flexibilty on the part of the IMF (reflected in their `concession' to the PNDC's proposal for the managed foreign exchange auction described in the previous chapter) and promises of increased external aid flows secured at the 4th Donors Conference in late 1986.

The year 1987 was in many respects a transition in the political economy of the implementation of the overall economic recovery effort. It was in 1987 that the PNDC, faced with dwindling support in the urban centres, decided to shift its basis of support to the rural areas through a new local government initiative. In 1988 elections were held for District Assemblies, which, from the government's perspective, were to be the foundations of a "new democracy".[11]

Between 1987 and 1989, the period of the ERP II, no serious political challenges to the PNDC emerged. This was in part a reflection of the breathing space accorded the regime by the District Assembly elections and the economic `carrots' that were made available to those sectors that were benefitting from adjustment. It was also in part a result of the "culture of silence" that had developed in reaction to the PNDC's suppression of dissent.[12]

In 1990, however, political opposition to the PNDC increased. Six years of high GDP growth had not made noticeable improvements in overall living standards and thus could not be translated into active political support. Despite some measure of support in the rural areas, the politically mobilized sectors of the population - the urban working classes, the middle classes, students and also the churhes, remained sceptical. Although no overt political threats surfaced, pressures for democratization began to mount both internally and externally. By the end of 1990, it had become obvious that the future sustainability of the economic recovery effort was intricately linked to the issue of democratization.[13] The reasons for this are examined in detail in section two.

III. Factors Affecting Sustainability.

In accordance with the analytic framework developed in chapter two, the factors that shaped the implementation of the ERP I and II are grouped into two categories: structural factors and leadership factors.

Structural Factors.

Two sets of structural factors, derived from the explanatory variables elaborated in chapter two, were central to the implementation of the ERP: 1) Domestic Structures: changes in the relationship between the regime and socio-economic forces and changes in the institutional relations within the state itself; 2) External Structures: changes in the relationship between the regime and dominant external actors.

Domestic Structures: Domestically, the key structural factor that facilitated the implementation of the ERP, was the degree of autonomy of the regime. As a result of this autonomy, the PNDC not only benefitted from a remarkable degree of political space but also from the availability of a relatively wide range of social forces upon which to shift its basis of support at various stages in the adjustment process, to cultivate the support of the winners and minimise the influence of the losers.

The Sources of the PNDC's Autonomy.

Changes in State-Society Relations: Included here are the nature, composition and interests of national constituencies and distributional coalitions; their level of incorporation into and/or disengagement from state networks; and the channels through which these interests are manifest.

Social and political life in Ghana has been characterized by a wide array of associations - voluntary, occupational/class, gender, religious, regional and ethnic - formed to pursue the collective interests of their members. In terms of national politics, the most influential have been the Association of Recognized Professional Bodies (ARPB) an umbrella organization representing associations of lawyers, doctors, engineers, etc;

the Ghana Bar Association (GBA); the Christian Council of Ghana (CCG), representing the major churches; the National Union of Ghana students (NUGS) representing students in higher educational institutions; the Civil Service Association (CSA); and the Trades Union Congress (TUC) representing the country's labour unions. Other influential groups have included those representing chiefs and women, manufacturers' and employers' associations, and the numerous "old boys'" and "old girls'" clubs.

In the 1960s and 70s these organizations and associations were characterized by a high degree of political activation, i.e., the ability and willingness to engage in collective action to pursue their interests.[14] And these interests were defined largely in terms of the distribution of political and/or economic rewards: defending access to state resources and/or market position.[15] In many cases, these groups were formed, nurtured and/or underwritten by the state.[16] And this was the key to the construction of political coalitions in Ghana.

Prior to the PNDC, successive Ghanaian regimes sought to construct governing coalitions by incorporating various social groupings into the orbit of the state. As noted in chapter three, this process of political coalition-building occurred through budgetary and fiscal expansionism, and a protectionist trade regime. In the process, elaborate state-society patronage networks were constructed which were used ostensibly as a national integrative tool, but more accurately to purchase political support through the distribution of economic rewards.

Initially, in the Nkrumah and Busia periods, these patronage networks were relatively broad-based, encompassing a wide variety of groupings. By the late 1970s, as economic conditions worsened, they had become more exclusionary and corrupt - centred on reaping the economic rents accruing from the overvalued exchange rate and the restrictive trade regime.

By the early 1980s the relationship between the state and organizations in civil society was fundamentally altered. Two factors stand out as having restructured this relationship: first, the impact of the prolonged economic crisis on the state-sponsored patronage networks; and second, the impact of the two Rawlings' coups, in June 1979 and December 1981, in terms of disrupting the class basis of political power and political discourse.

With respect to the economic crisis, by the early 1980s, in the face of the acute fiscal and foreign exchange crises, the state could no longer afford to underwrite and sponsor patronage organizations. The politics of distribution, in which fiscal expansionism and restrictive trade practices had been used to link selected groups with the state, and to distribute economic rewards as a means of purchasing political support, was no longer a viable option. Since many of the social organizations drew their sustenance directly or indirectly from the state budget, the results were predictable: disengagement from the state of those groups that had formerly depended on the state; and the fragmentation and weakening of the ability of these civil organizations to influence the policy directions of the state.[17] By 1983, societal disengagement involved not only a withdrawal from the state, but also withdrawal from the formal economy.[18] And this was one of the major sources of the PNDC's remarkable degree of autonomy.

The second major source of the autonomy of the PNDC was the impact of the two Rawlings' coups on class alliances and the class basis of state power. As noted in chapter three, the effect of the June 4th 1979 "house cleaning" coup was the cultivation and proliferation of urban-based, non-establishment, populist and `revolutionary' organizations. The influence of these organizations on the state, increased in the initial stages of the December 31 1981 "revolution." As far as the class basis of state power is concerned, the traditional middle-class coalitions that had dominated Ghanaian politics were pushed to the side. And a new fraction of the same class - differentiated by their radical ideology, youthfulness, populism and opposition to the political and economic status quo - appeared to take control over the state.[19]

Yet, as noted in chapter four, and as has been the case with all the middle class fractions and coalitions that have attempted to establish hegemony in Ghana, the ascendancy of the radical faction was temporary. And thus the effect was to introduce a new dimension of conflict into the existing intra-middle class competition that had bedevilled Ghanaian politics since independence. The further weakening and fragmentation of the middle classes that ensued resulted in increased autonomy for the regime.

Thus by 1982, a combination of factors combined to grant the PNDC a level of autonomy in relation to social forces that had not been experienced by any previous Ghanaian regime, or indeed, any other African regime. This autonomy was enhanced by several policy actions of the PNDC in its populist phase, including opening up the state to public scrutiny and the creation of new populist structures of governance. This had contradictory effects on the state and its relationship with society.

On the one hand, the traditional organs of the state, especially the central bureaucracy, lost their relative autonomy vis-a-vis society in the face of the populist demands that were encouraged. On the other hand, the political and administrative dualism that was heightened by the creation of parallel structures, had the effect of shielding or insulating the political regime. In addition, although Rawlings destroyed the traditional patronage structures and purposefully excluded the middle class coalitions that had nurtured these networks, no alternative networks were established to link the regime to specific socio-economic groupings.[20]

Changes in the State's Institutional Relations: The changes in the relationship between the political regime and the different branches of the state apparatus under Rawlings, played a significant role in the sustainability of the ERP.

While the state became more autonomous in relation to society, the control of the regime over the state, particularly its administrative and coercive wings, increased. And unlike previous governments in Ghana, since Nkrumah, which had been unable to control the other branches of the state apparatus, by the end of 1986, the central bureaucracy, and to a large extent, the armed forces, were under the control of the PNDC.[21] Three factors account for this change.

The first was the institutional decay in the armed forces and the central bureaucracy caused by the prolonged economic crisis. Added to this was the purging of top functionaries in both the armed forces and the bureaucracy carried out by Rawlings in 1979 and again in 1982. In the case of the armed forces, top functionaries were replaced by officers who were sympathetic to Rawlings and the influence of the other ranks, Rawlings's power base, was cultivated through the creation of Defence Committees in all three branches of the forces, and through generous `perks'. In the case of the central bureaucracy, in addition to the purging of top functionaries, the PNDC succeeded in controlling state managers by overturning two of the cherished principles of the civil service - security of tenure and anonymity.[22]

The other factor that increased the control of the PNDC over the state was the heightened institutional dualism created by the creation of parallel `revolutionary' structures of governance, including the defence committees, which pitted the newer organizations with their populist base against the traditional power structures.

As Hutchful, (1990) notes, the creation of parallel structures of governance with a populist base in the early phase of the PNDC was in many respects the decisive factor that enhanced the PNDC's power and control over the bureaucracy and the armed forces.[23] The creation of defence committees in the armed forces and in the central bureaucracy was a direct challenge to existing authority structures in the two institutions. Yet by maintaining the traditional authority structures, dual power centres emerged, neither of which had the upper hand. The result of the inconclusive contest that occurred was a weakening of both the `revolutionary' committees and the traditional structures, thus enhancing the PNDC's control.[24]

Thus institutional decay, as a result of the prolonged economic crisis, compounded by the deliberate usurpation of existing state structures and the intimidation of state managers were the sources of the PNDC's control over the state. Power centres in the armed forces and in the central bureaucracy, that historically had been a source of opposition to the policies and actions of previous regimes, were decapitated. In the process, a vacuum was created that was filled by new authority and policy making structures that were central to the implementation of the ERP. These new structures are examined in detail in section two below.

External Structures.

The relative autonomy the PNDC had in its relationship with domestic political and social structures contrasted sharply with its relationship with external structures. The implementation of the ERP necessitated that the regime give up some autonomy to the donor agencies and governments, whose continued support, economically and politically, was vital.

The most significant changes occurred in two areas. Economically, the changes at the system level in the relationship between donors and recipients, in the wake of the debt crisis, saw the development of an intellectual and policy consensus among donors towards the economic problems of LDCs. As noted in the previous chapter, the result was to increase the involvement of the Fund and the Bank in the economic policymaking of recipients, the extent of which varied with the conditions attached to the various loans and facilities.

For Ghana, since most of its loans negotiated with the external agencies were at the high conditionality end of the spectrum (Fund Stand-bys and Extended Arrangements and Bank SALs and SECALs) the extent of Fund and Bank involvement in the form of policy dialogue, advice, monitoring, and pressure was significant. It is important to emphasize, however, that where necessary, within the broad parameters of conditionality, both the Fund and the Bank were willing to be flexible in the choice of instruments. This was especially so in the structural adjustment phase of the ERP II, where the use of the Fund's newer facilities, the SAF and the ESAF, for example, entailed quite a bit of experimentation and innovation on the part of both the Ghana government and the external agencies.

The second aspect of the external environment that had an impact on the implementation of the ERP was the change in the relationship between the PNDC and Western donor governments. Although Ghana was of little strategic value and the extent of Western economic interests at stake in the country were relatively insignificant (at least compared to other countries in the region) after initial hostility, the PNDC enjoyed a considerable amount of goodwill from Western governments and donors. The reasons for this include the sympathy generated by the international outcry over the expulsion of one million Ghanaians from Nigeria, the drought and the bush fires, and the speed and rigour with which the PNDC approached the early phases of the ERP which demonstrated its commitment to reform. After 1986, Ghana possessed a strong constituency among donors.[25]

This goodwill on the part of creditor governments was manifest not only through increased aid flows after 1986, but also politically, through public pronouncements and through other measures such as thwarting destabilization attempts launched from abroad. Particularly noteworthy in this respect were the arrest and trial of a prominent Ghanaian dissident (J.H. Mensah, who had been Finance Minister in the Busia Regime) in the USA on treason charges for attempting to smuggle arms to Ghana in 1986; and the detention in Brazil of an Argentinian-registered ship that had been chartered by Ghanaian dissidents to smuggle arms and mercernaries to Ghana.[26]

Leadership Factors in the Implementation of the ERP.

The two properties of the PNDC's political leadership that played a key role in the sustainability of adjustment were: a) the degree of commitment to the adjustment process; and b) the regime's statecraft in managing costs and risks.

The PNDC's Commitment: That the PNDC possessed a high degree of commitment to the adjustment process launched in 1983, is beyond doubt. And this commitment was manifest in the speed with which policy reforms were instituted and the determination with which they were carried out.[27] The sources of the PNDC's commitment can be traced to the conditions under which the decision was made to accept the Fund-Bank policy package, and particularly, to the learning process that occurred.

As noted in chapter four, learning on the part of Rawlings and other key players in the PNDC involved: a) problem redefinition - a recognition of the structural rather than temporary/cyclical nature of the country's economic crisis and of the inadequacy of existing policy; b) goal redirection - a shift in goals and objectives; and c) belief system change - a corresponding shift in the ideology of the regime, especially in regards to macro-economic management.[28] Learning shaped the commitment of the PNDC in the following ways:

Learning helped to convince key players that the programme was not imposed. A quotation by J.S. Addo, a former Governor of the Bank of Ghana and one of architects of the ERP, aptly captures this sentiment. After recounting the spiral of economic decline into which the economy had been sliding up to 1982, Addo notes:

> We explored various avenues for addressing the situation and finally in late 1982 we decided to go to the Fund. We negotiated with the Fund. The resulting programme was not imposed on us, because we went through it in detail.[29]

Kwesi Botchwey, PNDC Secretary for Finance and Economic Planning and the person formally in charge of the ERP, echoes this view. In an interview granted to West Africa in 1987, Botchwey described the trade-offs and costs involved in seeking external economic assistance, and insisted that the PNDC "knew the score" and the Ghanaian negotiating team had prepared its own fiscal and monetary programme prior to the negotiations (the PFRD) in order to "create as much space as possible".[30]

The importance of this stems from the observation that the sustainability of adjustment starts at the negotiations with the external agencies, at the stage where the adjustment formula is designed, rather than at the implementation stage.[31] In the case of Ghana, the early recognition of the need for reform, and the lengthy negotiations with the Fund and the Bank, which involved extensive preparation by the PNDC's negotiating team, created the perception of ownership of the programme and thus strengthened the government's commitment.[32]

Learning also shaped the government's commitment to reform by convincing the PNDC leadership of the need for reform. As noted in chapter four, the issue for Rawlings and other key PNDC members was not whether or not adjustment was necessary, but what kind of adjustment. Most importantly, the learning process did not end with the decision to accept a Fund and Bank sponsored adjustment programme, but continued into the different phases of the ERP I and II. However, as will be shown in section two, obstacles to learning emerged as the PNDC became more insulated. And this was reflected in the some of the unsavoury aspects of the PNDC's statecraft for managing costs and risks.

The PNDC's Statecraft: Statecraft refers to the mobilization of resources, horizontally and vertically, to secure support for and/or contain opposition to, adjustment. Horizontal mobilization of resources refers to the actions taken in relation to the different branches of the state apparatus, and vertical mobilization refers to actions taken in relation to society and the external environment.

The PNDC's statecraft along these two vectors included a combination of authoritarian and non-authoritarian methods. Non-authoritarian methods included: negotiation and bargaining (with the external agencies and governments), charismatic leadership that relied on the personal authority of Rawlings; legitimation; depoliticization; closure (limited consultation) and insulation; compensation; and obfuscation. Given the military roots of the regime, however, authoritarian methods were also used and these included intimidation and repression.

Section two below provides fuller arguments and evidence of the interaction of the structural and leadership factors elaborated above in the management of costs and risks by the PNDC between 1983 and 1990.

[Section Two]

THE MANAGEMENT OF POLITICAL COSTS AND RISKS, 1983-1990:

The political challenges and implementation problems encountered by the PNDC in its efforts to sustain the ERP I & II can be categorized into two sets of constraints:

1) Domestic Constraints: a) political costs and risks arising from domestic political opposition to adjustment; and b) costs arising from a weak state and a weak market.

2) External Constraints: a) Problems arising from Fund-Bank overlap and inconsistencies in the adjustment formula; b) problems arising from shortfalls and lags in the financing of adjustment; and c) problems arising from deteriorating terms of trade and a growing debt burden.

For each of these constraints, the analysis first outlines the political and other implementation problems created, and then proceeds to examine how the structural and leadership factors outlined in section one interacted to overcome, or contain, those problems.

DOMESTIC CONSTRAINTS.

I. Problems Arising From Domestic Political Opposition.

Domestic political opposition to the ERP arose from the impact of the adjustment formula on key socio-economic sectors and groups. Two features about the design and content of the ERP I and II are noteworthy in this regard.

First, the severity of social costs engendered, the social sectors affected, and hence the type of political issues raised for the PNDC, varied according to the different phases of the adjustment programme. This can be traced to the conditionality attached to instruments and targets in the different phases of of the programme. There are three dimensions of conditionality that are important here: a) the scope (the number of policy areas affected); b) content (the specific policy mix and sequence); and c) speed (time frame) of conditions to be implemented. In the case of the ERP I, the political challenges for the PNDC were greatest in the liberalization phase (1985-86) reflecting the greater stringency of conditions along the three dimensions described above, that had to be implemented.

Second, the social costs of the adjustment programme, both within each phase, and across the different phases, were not evenly distributed in society. Specific socio-economic sectors were affected to different degrees by different policy reforms. In many respects, the impact of the various reform measures on identifiable groups and the ability of these groups to organize political opposition, varied according to their degree of institutionalization and their relative proximity to the state.[33]

In the Stabilization phase, where the emphasis was on reductions in the external and internal deficits through exchange rate adjustments and rationalization of state finances, the primary political challenges for the PNDC came from the political fall-out from the massive devaluations of the national currency. Between February 1983 and January 1985, for example, there were five coup attempts, organised from both the political right as well as from the left. In addition, there was a rising chorus of protest, largely ineffective, both from established organizations such as the professional associations and the churches, and newer organizations, based off-shore, formed specifically to oppose the PNDC.[34]

A key aspect of the management of domestic political opposition during the early phases of the ERP was the availability of social forces. The fluidity of class alliances and the heightened class and ideological antagonisms that were brought to the fore in the early stages of the `revolution', enabled the PNDC to play-off the fears and aspirations of the contending political and class forces.

In terms of the implementation of the ERP, it was this factor that explains how the PNDC was able to launch its reform programme in 1983 on the basis of the support (albeit sceptical and dwindling) of the working classes and popular organizations. Then, between 1984 and 1987, the government was able to shift its basis of support and consolidate the programme on the basis of the support of a conservative technocratic and business elite, and then again, between 1987 and 1989, to cultivate a basis of support in the rural areas.

Each of these shifts in the support bases of the PNDC roughly corresponded with the different phases of the adjustment process and the kinds of costs and risks engendered. In the initial stabilization phase of the ERP (1983-84) where the emphasis was on reducing the external and internal deficits, through compensatory measures, obfuscation, and sheer good luck, the PNDC was able to weather the kinds of negative political consequences that had accompanied stabilization attempts in the past.

For example, compensation came in the form of increases in the non-taxable `allowances' component of wages and salaries, which minimised the impact of devaluation and price increases on those on fixed incomes.[35] Also, the system of bonuses and surcharges, described in the previous chapter, was a skillful way to effect a de facto devaluation, but avoid the negative political consequences that accompanied major devaluations in the past.[36] By transferring the costs of exchange rate depreciation onto users of foreign exchange, the immediate impact was greater for the rentier class than for those on fixed incomes.

In addition, key players in the administration claim that timing - the decision to begin the ERP in April 1983 was an important component of the management of costs and risks. The effects of the drought, bush fires, the return of a million migrants from Nigeria, the cummulative effect of the prolonged economic downturn, the international recession, and the political upheaval, made the year 1983 the worst year on record in the economic history of Ghana. Joe Abbey, one of the principal architects of the ERP, claims that the government actually chose to begin the ERP in the midst of this economic and political upheaval to deflect criticism of some the programme's adverse effects.[37]

Whether this claim by the government is accurate or not, what is not in doubt is that the effects of the exogenous shocks plus the legacy of the AFRC era (which included a widespread perception of the personal intergrity of Rawlings) combined to grant the PNDC a `honeymoon' period. Furthermore, by maintaining the programme in face of acute economic and political difficulties, the PNDC was able to demonstrate its commitment to the reform process and gain the confidence of the Fund, the Bank and the bilateral donors. In 1984, for example, gross ODA rose by 78%.[38] In addition, the fortuitous return of normal rainfall in 1984, and the bumper crop harvests recorded that year, made 1984 a turning point in the sustainability of the ERP I.[39]

The widened and deeper conditionality that came with the rehabilitation and liberalization phases of the ERPI (1984-86) affecting a greater number of policy areas, including wage restraint, price decontrol, elimination of government subsidies, tax reform, etc, raised a different set of political issues for the PNDC. In these phases, the thrust of the reform effort was to reduce the scope and extent of state intervention in the economy to free up `market signals.' Here, the primary political challenges for the PNDC came from the negative responses of groups, exposed to the vagaries of the market. that had hitherto benefitted from close proximity to the state. During these two phases, political opposition to the PNDC came mainly from those on fixed incomes (organised labour and other wage earners, middle-class elements in the civil service and in the public and parastatal sectors, including academics).[40]

In Ghana, institutionalized groups - civil servants and other public employees, trade unions, and other wage and salaried workers - initially experienced declines in incomes as a result of relative price changes, austerity and budget rationalization. Because of their close proximity to the state, these groups were able, for brief periods between 1984-86, to mount some opposition to the PNDC. In 1986, for example, owing largely to pressure from these sectors, the PNDC was forced to raise public sector wages. Other unorganized sectors, particularly the urban and rural poor, who arguably were the most adversely affected by adjustment, however, had no channels to seek redress.

The impact of the ERP on fixed income earners was manifest through three channels: changes in income levels and in income distribution, retrenchment, and curbs on workers rights such as the right to strike.[41]

Table 4 below indicates that real incomes of wage earners actually improved under the ERP. Although still considerably well below the standard in 1970, estimates of real wages based on the CPI index, show a steady increase from 1983 when wages were worth 16.7% of what they had been in 1970, to 1986, when they were worth 35.9% of their 1970 level. The CPI, however, does not adequately capture the full dimensions of the costs to workers engendered by adjustment. Although real wages may have increased, it was in areas such as the withdrawal of government subsidies and the introduction of `user fees' for access to basic services such as medical care, that the real social impact of adjustment was felt.[42] In addition, as the adjustment process moved into the Structural Adjustment phase, disparities in income distribution began to widen.

Table 4
Ghana: Real Minimum Wages and Inflation, 1982-86

Year	Inflation Rate (CPI)	Real Min. Wage Rate Index (1970 = 100)
1982	22.3	20.5
1983	122.8	16.7
1984	39.6	19.2
1985	10.4	34.8
1986	24.6	35.9

Sources: Republic of Ghana, Central Bureau of Statistics, "Quarterly Digest of Statistics," various issues.

Another impact of adjustment on workers was in the area of retrenchment and redeployment of employees in the public services. Retrenchment of workers occurred in three areas: state enterprises; the civil service and local government. At the beginning of the ERPI in 1983, a survey conducted by the government's Manpower Utilization Committee, estimated that there were over 300,000 people employed in the public services, 20% of whom were underemployed. This translated into the elimination of over 45,000 positions.[43] Apart from the Cocoa Marketing Board, however, which by May 1987 had laid-off over 38% of its work force, the retrenchment excercise in the civil service did not begin until the ERP II (1987-89). By the end of 1990, over 45,000 civil service employees were made redundant, plus 20,000 from state-owned enterprises.[44]

The major reason for the delay in implementation of the retrenchment excercise was that in its efforts to reduce expenditures and raise productivity, the sheer size of the public sector and the number of people to be made redundant, created a dilemma for the PNDC.[45] Part of the reason for the low productivity was the fact that wages had fallen so low over the preceding decade that workers were either holding two jobs or were spending an inordinate amount of time away from work trying to eke out a living. And raising real wages and salaries in the public sector could not be done without generating inflationary pressures, especially since constraints were placed on the Government's borrowing and revenue expansion capacity.

In addition, the cost, in dollar terms, of retrenchment could itself be prohibitive. According to government estimates, the overall exercise would cost US$4.8 billion (at 1985 wages) and government expenditures would have had to be increased by US$

10m per annum to prematurely retire, retrain and redeploy staff.[46] Finally, simply laying-off workers in the absence of alternative employment opportunities to absorb redundant labour, would only compound social problems. The private sector, itself reeling under the impact of the ERP, was in no position to play this role. Within the private sector, import liberalization, removal of protective tariffs, and the credit squeeze resulted in the loss of hundreds of jobs.[47]

Whatever the economic rationale for retrenchment, the sheer numbers of people made redundant and the speed with which the excercise was carried out between 1987 and 1989, was bound to create social and political problems. Many Ghanaian officials privately acknowledged that the excercise had been ill-planned.[48] The compensatory scheme devised by the PNDC in consultation with the Bank and other donors to cushion the social cost - the Programme of Actions to Mitigate the Social Cost of Adjustment (PAMSCAD) - which is discussed in greater detail below, was an implicit acknowledgement on the part of the government of this criticism.[49]

PAMSCAD, which was devised in 1987, was an innovative aspect of the adjustment programme in Ghana. The initiative for the creation of PAMSCAD came from the PNDC and was supported by the World Bank and bilateral donors.[50] PAMSCAD was intended to cushion the negative social consequences generated by adjustment by providing assistance to three sets of target groups that were considered the most vulnerable, based on a profile of poverty in the country conducted by the government's Ghana Living Standards Survey (GLSS). These groups were: rural households, especially in the Northern and Upper Regions of the country; low income urban house-holds; and retrenched public sector employees.[51] By the end of 1990 PAMSCAD had twenty three projects in five categories: employment generation, community initiative projects, basic needs projects, redeployment projects, and educational projects.[52]

From the outset, PAMSCAD ran into problems. Donor support was slow in materialising. Funding came from grants from sources such as US AID, and the Canadian and Dutch governments, but financial pledges from these donors were delayed. Problems were also created by ambiguity surrounding the jurisdiction of the PAMSCAD. When first created, PAMSCAD was made part of the Structural Adjustment programme launched in the ERPII and was administered by the ministries and departments that were directly involved with the SAP. The PNDC initially had misgivings about creating a separate jurisdiction for the PAMSCAD. But in 1988, under pressure from donors, a separate secretariat was established.[53]

The reasons why the PNDC sought to have direct control over PAMSCAD stem from the political sensitivity of the latter's interventions. In its guidelines for the selection of projects to be funded by PAMSCAD, for example, the government explicitly acknowledges this political concern. It notes:

> In sensitive areas such as redeployment and education... interventions should have political marketability and currency. In such areas, interventions should have high visibility and assure

target groups of the sincere efforts being made to cushion adjustment costs.[54]

The creation of a PAMSCAD secretariat with a permanent director, however, did not eliminate the problems of overlapping jurisdiction with other government departments. Rivalries surfaced between participating departments, such as the Ministry of Health and the Ministry of Education, over funding.[55] These problems notwithstanding, PAMSCAD did achieve some successes particularly in community development projects, but as at the end of 1990, it had not been particularly successful in alleviating the hardships of the poor or in the redeployment of the thousands of laid-off workers. This was mainly due to the meagre resources it had at its disposal and the short duration of its interventions (two to three years).[56]

The third area in which the ERP affected workers was in the area of diminishing collective bargaining rights. It was noted in the previous chapter how the PNDC had initially tried to forge an alliance with labour through the WDCs and the Interim Management Committees, the latter established to encourage worker participation in management. With the commencement of the ERP, however, the PNDC's attitude towards labour changed. After 1984, steps were taken to subdue labour militancy through the introduction of curbs on workers' rights, such as the right to strike. Efforts were also made to ensure cooperation between workers and management, and a new emphasis was placed on productivity in the work place.

A speech by Rawlings at a conference of the Ghana Trades

Union Congress, aptly summarizes this new attitude. After recounting the problems of productivity in the country, Rawlings notes:

> Talking about improved conditions for the workers is pointless unless the workers are producing the means to make this possible...One reason why you have not made as much impact as you might have done...is the sometimes inward-looking tendency of the labour leadership... It sometimes seems that an inordinate amount of time is spent on internal labour politics. The ultimate success and social usefulness of your organizations depend upon their productive base.[57]

By attempting to instil a work ethic based on the norms of the market, the PNDC was attempting to depoliticise the labour movement. Where this did not work, the PNDC resorted to intimidation through the arrest and detention of labour leaders, and the violent suppression of any hint or suggestion of labour agitation.[58]

II. Problems Arising From a Weak State and a Weak Market.

In addition to domestic political opposition, several other difficulties were encountered by the PNDC in its efforts to implement its economic recovery programme. These problems centred on the diminished capacities of the state and on the problematic relationship between a weak state and a weak market.

i) Problems Arising from Diminished State Capacities.

The two aspects of state capacities that figured prominently in the implementation of the ERP were administrative capacity and political capacity.

Administrative Capacity: State administrative capacities in Ghana were by the beginning of the ERP in 1983, greatly diminished as a result of the factors indentified in chapters three and four. These included the severe erosion of the state's fiscal position and the contraction of its revenue-generating capacities; and the intense intra-state rivalries between the political and technocratic wings (bureaucratic/military) reflecting the broader intra-middle class competition inherited from the anti-colonial struggle. The impact of these on the state were compounded by assaults on the state machinery - the purging of top functionaries - by the AFRC in 1979 and the PNDC in 1982-83.

In addition, for almost a decade prior to 1983, there had been a steady exodus of skilled personnel from the country. This, combined with poor remuneration, low morale in the public service and cumbersome administrative systems, severely handicapped the development administration capacities of the state, particularly in the earlier phases of the adjustment process.[59]

The implementation problems for the ERP created by diminished administrative capacities were greatest in the areas of planning and monitoring. For example, institutional weaknesses and staffing problems adversely affected the preparation of the government budget, and the monitoring of the implementation of key policy variables particularly in the areas of pricing.[60] In the trade policy area, prior to the liberalization of the import regime after 1986, the administration of import licenses was so cumbersome that it was virtually impossible to monitor allocations and uses of licenses actually issued.[61]

Institutional weaknesses also plagued the liberalization of the foreign exchange regime. This occurred with the multiple exchange rate system adopted in 1983 and also with the managed foreign exchange auction (1986).[62] Indeed, in 1986, there was concern that the reform package was over-ambitious in relation to the state's capacities. However, these administrative obstacles to implementation were reduced by institutional changes made by the PNDC, including the streamlining of economic policy making at the highest levels and by technical assistance from the donor agencies, particularly, the World Bank, which included a sizeable number of Bank and Fund missions to Ghana and personnel setting up shop in Accra.[63]

The erosion of national autonomy in economic policy formulation that derived from the large numbers of Bank and Fund personel and missions, and also from the proliferation of conditions, was perhaps the most obvious political cost to the PNDC created by diminished state capacity. In interviews with senior officials in the government departments, many decried the pervasive presence and influence of World Bank staff and other expatriates. A particularly sore point was the wasteful duplication of efforts that arose from the fact that very often, these "foreign experts" preferred to gather their own data and do their own feasibility studies inspite of the fact that such data had already been collected by government agencies.[64]

The PNDC's response to the problems created by diminished administrative capacities was to restructure the political and policy making organs of the state. Changes were made in three areas. The first involved the appointment of new members to the ruling Council itself and to other key state agencies. As noted in the previous chapter, by the end of 1983, Rawlings was the only one of the original PNDC members to remain in office. Most of the new appointees were moderates and included several prominent and well-respected figures, including Justice D.F. Annan a high court judge who was made vice-chairman of the PNDC.[65]

The second aspect of restructuring was the attempt to delineate the political and decision making functions within the state organs. In the process, lines of demarcation were drawn between the political, administrative and other wings of the state. This essentailly involved a division of responsibilities between the ruling Council and the Committee of Secretaries (PNDC secretariat). While the Council excercised overall political authority and was responsible for making laws, the Committee of Secretaries (the cabinet) dealt mainly with the day-to-day administration of the various governmental ministries and departments. A Coordinating Secretary, who was also a member of the Council, was equivalent to a Prime Minister and served as the laison between the (political) ruling Council and the (administrative) Secretariat.

In terms of the implementation of the ERP, a third refinement was added. This involved, first, the creation of several state agencies and `think-tanks' staffed by people with demonstrated technical competence in various fields, irrespective of their political and ideological orientation. Prominent among these agencies were the National Economic Review Committee (NERC), the State Commission for Economic Planning (SCEP) and the National Policy Implementation and Monitoring Secretariat (NPIMS).

The second innovation was the centralization of economic decision making in a small circle of competent technocrats who were highly insulated both from the other branches of the state and from society. Although formally coordinated by the PNDC Secretary for Finance and Economic Planning, Kwesi Botchway, this circle of technocrats was never institutionalized. No formal organization or offices were ever established and their identities were largely unknown to the general public. Indeed, most of them had other roles as heads of various government agencies and institutions.[66] For want of a better name, they can be described as the `inner circle' of advisors.

This inner circle of technocrats were non-bureaucratic in origin (most of them were either former university professors or were recruited from financial institutions or private businesses) and thus were unconstrained by traditional bureaucratic norms and operating procedures. They included a mixture of individuals ranging from those who were the archetype technocrats - non-political - to those who had strong political and ideological views. Some had been NDM members and had been close collegues of Rawlings before the December 31 1981 coup. Most of them had been members of the NERC, which it will be recalled from chapter four, was the prime source of the pro-IMF faction in the early phases of the PNDC era, and the main impetus behind the decision to accept the Fund and Bank programme.[67]

It was through this inner circle that the `transnational coalition' - the intellectual, policy and financial backbone of the ERP - was forged. Decisions made by the Ghanaian technocrats were arrived at through close collaboration and consultations with Fund and Bank personel, and foreign consultants. And in most cases decisions regarding economic policy were arrived at by consensus.[68] Although disagreements did surface between Ghanaian and external agencies, these disagreements were mainly with regard to the sequencing, phasing, and mix of specific policy instruments (see section on external contraints below). The basic thrust of the adjustment process and the underlying rationale for the reforms were not brought into question. In effect, an underlying consensus existed among all the key players involved in the implementation of the ERP.[69] This was reflected in several innovations in the Ghana programme which will be examined a little later.

In terms of the implementation of the ERP, the centralization of economic policy making had positive and negative consequences. On the positive side, the element of continuity in the membership of the `inner circle', the direct access they had to Rawlings and other key players in the PNDC, which enabled them to by-pass the various levels of bureaucracy, allowed for speed and relative consistency in economic policymaking. In addition, the autonomy granted the inner circle by the PNDC in economic policy matters, their anonymity and insulation, plus their close association with technocrats in the Fund and the Bank, helped to streamline implementation structures, made for flexibility in responding to economic signals, and thus helped to mask some of the institutional weaknesses discussed above.[70]

On the negative side was the absence of any public input into the programme. All key decisions were made by the same small circle of technocrats, and consensus-building occurred only among this group. The PNDC steadfastly refused to encourage any public debate of the programme. This was unfortunate for by refusing to publicly engage criticims of the programme, the PNDC lost an important channel of communication to the people most affected by the reforms. As will be shown below, in the Structural Adjustment phase where there was a greater reliance on the market, the absence of public input into the programme compounded the problems of eliciting the desired supply responses from market actors.

<u>Political Capacity</u>: By political capacity is meant the ability of a government to win the confidence of the populace and enlist support in pursuit of policy objectives. The problem for the PNDC

in this regard, was that of legitimacy - how to construct and recompose its ideology and political discourse in order to achieve a reconciliation with alienated social sectors.

The PNDC's response to the problem of political capacity was three-fold. First, political repression was used to stifle dissent. When it became obvious that repression alone was not sufficient to guarantee success in its adjustment efforts, or indeed, to ensure its survival, the PNDC increasingly came to rely on the charisma and leadership qualities of Rawlings. Third, after 1987, an attempt was made to construct a basis of support and create a semblance of legitimacy through a democratization excercise that involved elections for new District Assemblies.

The task of ensuring state security was entrusted to Rawlings's close associate Capt. (Rtd) Kojo Tsikata, who created an elaborate security apparatus that involved all three branches of the armed forces, the police, agents and informers, many of whom were recent university graduates.[71] This security apparatus was used frequently in the early phases of the PNDC era to suppress dissent. Numerous incidents of mysterious disappearances, torture, summary executions and harrassment were frequently reported between 1982 and 1984.[72]

The PNDC soon came to realise that political repression does not create political stability. All it does is engender fear and hostility. Indeed, the number of coup attempts against the PNDC were greatest during its most repressive phase (1982-85). The excessive use of violent repression in the early phases of the PNDC era, soon gave way to a less violent form of intimidation and harrassment. Nevertheless, the fear and mistrust persisted and produced two consequencs for the implementation of the ERP: sycophancy and a `culture of silence'.

With respect to sycophancy, as so often happens when dissenting opinions are discouraged, where public debate is stifled, and where public officials can be dismissed at the whim of a superior, an unfortunate number of opportunists and `yes men' emerged in influential positions.[73] This was especially so in early phases of the PNDC era when, because of its radical rhetoric and actions against the middle class establishment, the PNDC found it difficult to attract qualified persons to high office.

The `culture of silence' was manifest in the absence of any public debate and criticism of the government and its policies. Through control of the media and the harrassment and detention of opposition figures by the PNDC, an eerie calm appeared on the surface of Ghanaian politics. A speech by Professor Adu Boahen, a prominent critic of the PNDC, who was detained and harrassed by the security forces, captures the nature and the effects of this culture of silence:

> Is the culture of silence prevailing because people have not in fact been talking or is it because they have been talking but what is said that is critical of the government or is in opposition to the views of the government, is not reported?... There is another aspect of the culture of silence that seems to be ignored... This takes the form of not just silence but also apathy, indifference, refusal to accept appointments from the PNDC or to take part in communal activities...[74]

By 1988, the restrictions on the media and public debate were lifted somewhat (professor Boahen's comments which appeared in a local paper would not have been printed otherwise) but in many respects, the damage had already been done.

The second aspect of the PNDC's strategy for building political capacity was the increased reliance on the charisma of Rawlings. Through a carefully cultivated public image as the "man of the people" the PNDC tried to distance itself from its turbulent origins by emphasising Rawlings's integrity, courage and opposition to social injustices. Between 1984 and 1987, the PNDC came to rely more heavily on the persuasiveness of Rawlings's political and moral exhortations.[75] And Rawlings steadfastly shunned the trappings of power - the limousines and mansions - publicly at least, and kept his military rank, in an effort to show that he had not been corrupted by power. Through this, Rawlings was personally able to maintain some support throughout the country, but the effectiveness of his charisma began to wane as the austerity measures bit deeper.

By 1987, it had become obvious to the PNDC that a different form of governance was required to see through the Structural Adjustment phase of the ERP. In effect, the very factors that had enhanced the PNDC's autonomy in relation to society, and that were instrumental in the implementation of early phases of the ERP I, had, by the beginning of the Structural Adjustment phase in 1987, become a source of weakness. In the earlier Stabilization and Rehabilitation phases, where the PNDC had relied on the `shock treatment' (wide ranging reforms that were speedily implemented) its repressive capacity and autonomy allowed it to contain opposition and ignore demands from adversely affected groups.

However, in contrast to the (Stabilization) emphasis on state-administered demand-restraining relative price changes to reduce the internal and external deficits, in the Structural Adjustment phase, the emphasis was on improving supply responses (savings and investment, production, etc) to stimulate growth. In the earlier phases of adjustment, therefore, the reform process was primarily top-down consisting mainly of administrative manipulation of key macro and microeconomic instruments that to a degree, could be controlled by the government. And in this respect, the Stabilization and Rehabilitation phases were suited to an authoritarian-administrative regime like the PNDC.

In the latter, Structural Adjustment phase, however, the reform process became more dependent on supply responses and impersonal market mechanisms that could not easily be directed by the government.[76] New sets of political and implementation issues were raised that required a change in the relationship between state and society. These problems centred on market weaknesses and supply constraints (discussed below) which could not be managed by political repression or charismatic leadership alone.

In essence, the political requirements and the mode of governance that sustain Stabilization measures are quite different from those required for sustaining Structural Adjustment. While the former essentially involves short-term crisis management, the latter involves longer-term political confidence-building measures. The PNDC was well aware of this. In an interview granted to West Africa in 1987, Rawlings noted the need to build a "national economic consensus" on the ERP, in order to move from "rehabilitation and crisis management to deepen the recovery programme by addressing the structural problems of the economy".[77] The method chosen to build this consensus was to seek a basis of legitimacy through a democratization exercise.

A new local government initiative announced in 1987, was the third aspect of the PNDC's attempt to build political capacity. Through this intiative, the government attempted to tap into existing patron-client networks in the rural areas and channel greater economic benefit to the rural communities through increases in producer prices, to cultivate the support of the supposed `winners' in the adjustment process- the farmers.

In 1988, elections were held for new District Assemblies, which, from the perspective of the government, were designed to decentralize the machinery of government by giving local political structures greater autonomy in the management of local resources.[78] But the powers actually devolved to these local authorities were emasculated by the fact that the PNDC, in an effort to ensure a core of loyal support, resorted to appointing one-third of all local-council members. This notwithstanding, the local council elections generated a lot of enthusiasm in the rural areas where 70% of registered voters cast their ballots (compared with national figures of 38% for the 1979 elections and 63% for the 1969 elections).[79] Although voter turn-out was predictably lower in the urban centres, the results of the elections temporarily muted some of the criticisms against the government as the PNDC was quick to use the results of the elections to bolster its claim to legitimacy.

The PNDC's success in this regard, however, did not solve the problem of legitimacy and political capacity. Given that power centres in the country were in the urban areas, the PNDC was soon to realize that building support among rural communities was not sufficient. For many urban-based groups, the District Assemblies were reminiscent of Acheampong's 1978 "Unigov" fiasco and were therefore dismissed as nothing more than an attempt by a politically-bankrupt regime to buy time.[80] For these groups, nothing short of a national democratization exercise would suffice.

Thus although the PNDC was aware of the different political requirements for sustaining Structural Adjustment, namely the need to establish a modus-vivendi with the population in order to stimulate market activity, its hesitant democratization exercise was not the answer. And as the adjustment process moved deeper into the Structural Adjustment phase, the problems of eliciting market responses became more pronounced.

ii) Problems Arising From A Weak Market:

As noted earlier, the primary thrust of neoorthodox Structural Adjustment is to reduce the role of the state in the economy. The rationale for the restoration or creation of market mechanisms, from the perspective of the Fund and the Bank, is to increase competition and thus improve efficiency in domestic production. The consensus within the Fund and the Bank, and also in the international donor community, is that development and growth are best served by sending market-signals to producers and consumers in order to increase total production and rationalize distribution.[81]

But is this really the case? As critics have been quick to point out, this assumption rests not only on questionable psychological assumptions, but also on doubtful historical evidence.[82] In the Post-War era, the few development successes to date - the Asian NICs - adopted a development model that involved tight state controls over the operation of the market, in the areas of finance, foreign investment, and industrial and export development. Aside from the absence of recent historical evidence confirming the ability of the market alone to promote development, the problem of relying solely on market mechanisms from the perspective of a country like Ghana is, as one analyst has phrased it, that it is "lost between state and market."[83] The state is weak, but the market is even weaker.

The transition from a centrally-planned economy in which key macroeconomic variables are controlled by the government to a liberalized one in which the market mechanism is given freer rein is difficult, both technically and politically. While it is true, the historical record shows, that the state in Ghana has not been particularly effective nor efficient in intervening in production and distribution, real policy and political dilemmas were created for the PNDC by the hasty withdrawal of the state from the economy in the absence of well developed and institutionalised market mechanisms.

This stems from the fact that the market requires a strong set of normative underpinnings in order to function effectively. And these normative underpinnings are provided by the state.[84] Sending `market signals' through changes in relative prices to self-interested utility maximizers although necessary, is not sufficient to elicit the desired supply response. Market actors also need to be persuaded through (political) confidence-building measures, of what the rules of the game are and that these rules are in their interest.[85] In essence, market actors need a measure of political influence - structures of governance and accountability that are accessible to them. Thus although market mechanisms will reduce the politicization of economic activity, without institutionalized normative underpinnings, the market may not serve as an engine of growth.

Thus with the commencement of the Structural Adjustment phase of the ERP II in 1987, the central problem for the PNDC in its efforts to sustain the ERP was how to manage the problematic relationship between a weak state and a weak market.[86] The major issue here was uncertainty, political and economic, concerning what the rules of the game were. Two sets of political challenges arose. The first came from the high degree of uncertainty and insecurity experienced by institutionalized groups. The second challenge came from the uncertainty experienced by private capital in response to the inability (or unwillingness?) of the regime to introduce the political confidence-building measures to stimulate market actors.

With respect to the first, through public sector retrenchments and state divestment, and a new emphasis on productivity in the public sector, the norms that had infused public sector sector employment in Ghana -norms that had strong ethos of statism, welfarism, and distributionism - were being replaced by the norms of the market (productivity, profitability and efficiency). Although adjustment efforts had been made by previous regimes in Ghana, specifically by the NLC (1966-69), Busia (1969-71) and Akuffu (1978) regimes, these had largely been confined to Stabilization, and the extent of market liberalization had been extremely limited.[87]

With the PNDC's ERP however, for the first time, the statist-distributionist model of governance created by Nkrumah, which, as noted in chapter three, placed the public sector at the hub of social mobility and emphasized bureaucratic distribution, was undergoing major revisions. A major challenge for the PNDC, therefore, was how to reconstruct the norms of political legitimation and discourse, and the bases of social reproduction, based on the norms of the market.[88]

In managing this challenge, the PNDC was aided by the structural changes in the relationship between state and society described in section one. The disengagement of civil organizations and distributional coalitions, weakened their ability to oppose the PNDC and its policies. As suggested above, the ability of groups to mount effective protest depended on their degree of institutionalization and relative proximity to the state. With the PNDC, however, its refusal to root its support base in any particular social formation, coupled with the sharp curtailment in the access of social groups to state resources, robbed these groups of the means of, and the channels to, voice political protest.[89]

The severe curtailment in the access of politically mobilized groups (i.e., urban-based) to state resources increased as the populist phase of the PNDC faded. The transitional (1983) and consolidation phases (1984-87) of the PNDC, witnessed a further shrinkage of the formal political arena as the PNDC set out to depoliticize virtually all aspects of social and economic life. In the process, the activities of these groups were redirected towards survival strategies and informal economic networks, outside the orbit of the state.[90] It was this prior disengagement from the state and formal economic networks by social groups that provided the regime with the space within which to attempt to reconstruct the norms of social reproduction and political legitimation, based on the norms of the market.

The PNDC's strategy in this regard was two-fold. The first aspect was the limited democratization exercise, through the District Assembly elections, which was described above. The second aspect was the attempt to legitimate the informal market place and endorse the various survival strategies and informal economic networks (provided they were legal) that had sprung up in response to the shrinkage in the access to state resources. New ideological phrases and slogans that emphasized production, profitability, and efficiency replaced the radical populist slogans of the early PNDC.[91] Thus unlike other African governments, such as Nyerere's Tanzania or Kaunda's Zambia, where a long-standing ideology that emphasized socialist values made it difficult for the regime to `sell' adjustment, the initial absence of a coherent ideology on the part of the PNDC made the selling of a market ideology easier.

In the process of legitimating the market, the PNDC hoped new norms of economic conduct would not only divert energies away from the state and a preoccupation with distributive politics, but would also grant social groups the space to develop alternative means of economic and social reproduction.[92] And in this endeavour, the PNDC did achieve some successes.

Thus, a key aspect in the sustainability of the ERP was the role of the informal economy in terms of absorbing or cushioning the effects of price increases, and of providing alternative means of social and economic exchange. Prior to 1983, real prices of goods and services in the country were determined in the informal sector, and these prices were considerably above the officially controlled prices. Even after the rise in the price of goods and services after the deregulation of official pricing in 1984 and the effects of devaluation, informal sector prices still reflected the true cost people paid for goods and services, including food.[93]

In addition to cushioning the effects of price increases, the informal sector created alternative means of social exchange and social reproduction. Economic activities in the informal sector, which by 1986 were estimated to account for about 85% of employment in the country, included, on the positive side, the development of cooperatives in small-scale manufacturing and agriculture.[94] On the negative side was the proliferation of petty trading and hawking especially in the urban centres, where legions of unemployed youth, many of them of primary school age, risked their lives trying to eke out a living by hawking an assortment of wares at the road sides, darting in and out of traffic.[95]

The development of survival strategies was in many cases a spontaneous reaction to the shrinkage of state resources, but was encouraged by the regime through, for example, the establishment of rural banks in the case of cooperatives, or by simply turning a blind eye to the problem in the case of the street hawkers.[96] In addition to the growth of informal economic networks was the rise of voluntary and local associations that were neither linked to nor dependent on state resources.[97]

As Chazan (1991) and Obeng (1988) note, these associations and informal economic networks, eventually became more than mere coping strategies. They signalled a restructuring of the basis of social reproduction and of the relationship between state and society.[98] The development of social exchange networks in the informal economy, in which goods and services were transferred on the basis of barter, kinship, reciprocity and redistribution (in contrast to the formal economy based market exchange - supply and demand and the price mechanism) over time, served to distance society from the state and spawned a different set of elites and social networks that were neither dependent upon nor interested in state resources.[99] For these groups, the state became increasingly irrelevant as far as meeting basic economic necessities was concerned.

Thus, it would be more accurate to say that it was Ghanaian society that became more autonomous in relation to the state, rather than the other way around. And a greater share of the credit for the development of alternative means of social reproduction and exchange, a key to the sustainability of the ERP, must go to the Ghanaian people rather than to the PNDC.

With respect to the uncertainty experienced by private capital, however, the PNDC had problems instituting the confidence-building measures that, in theory, should have stimulated market activity.[100] Although private entrepreneurship was very much alive in Ghana, and indeed, had been for a long time, this was mainly confined to trading. Investment that required large overheads, long periods of maturity and entailed high risk, was hesitant both on the part of local and foreign private capital.[101] There are two interrelated reasons for this: first, the government's ambivalence towards the role of private capital; and second, the disincentives created by market imperfections and by the weakness of the local private sector.

In interviews conducted in Accra, one of the reasons given by representatives of the Ghana Chamber of Commerce for the lack of private sector response was that "private business does not trust the PNDC."[102] A similar view, albeit couched in more diplomatic terms, was expressed by the World Bank's Resident Representative, who, in an interview with this author, blamed the problems the PNDC had in attracting private investment on the `mixed signals' the government was sending.[103]

The `mixed signals' to which the Bank official referred are readily apparent in a speech given by Rawlings at the National Investment Promotion Conference, held in Accra in February 1990, jointly hosted by the Ghana Investments Centre (GIC) and the World Bank's Multilateral Investment Guarantee Agency (MIGA). In a conference that was supposed to extend a welcome to private investment, what was most noteworthy about Rawlings's opening address were the warnings that were interspersed with invitations. Indeed, almost one-half of the speech was devoted to describing the negative aspects of foreign investment and extending veiled threats to private investors.

For example, after recounting the history of past foreign exploitation of Ghana under colonialism, and the kinds of corrupt practices of multinational investment, Rawlings states:

> I can assure you that you are very truly welcome...But I am obliged to emphasise that we cannot however tolerate foreign investors who think that because Ghana is a small developing country, they can arrogantly throw their weight around...[104]

While Rawlings's apprehesion regarding the potential for abuse from private investment is justified, a keynote address at a conference designed to lay a welcome mat for foreign investment is hardly the place to launch a diatribe on the evils of such investment.

The confidence of many in the local private sector in the PNDC had been shaken in the early days of the `revolution' when several punitive actions were taken against prominent business people. Through the activities of PNDC organs such as the Citizens Vetting Committee (CVC), the National Investigations Committee (NIC) and the Public Tribunals, and the heavy revolutionary rhetoric of the early PNDC, a stigma came to be attached to entrepreneurship, and indeed, to the ownership of private property and wealth.[105]

Although the climate for private investment did improve somewhat after the commencement of the ERP, this stigma persisted and was reinforced by several public pronouncements of PNDC members, and by the continued harrassment of local entrepreneurs.[106] What concerned local entrepreneurs most was not so much the PNDC's right to ensure that private investors respected the laws of the land, but the apparent arbitrariness with which charges of economic crimes were laid and the absence of due process of law in the conduct of the Public Tribunals. Once accused, a person would be detained, assets would be frozen or confiscated, and conviction was almost a certainty.[107]

The charge of sending mixed signals to private investors was denied by government officials who instead blamed the lack of private sector response on the inconsistencies in the adjustment formula itself.[108] And as will be shown below, there were indeed inconsistencies and contradictions in the adjustment formula that did create disincentives. This notwithstanding, and despite the government's denial, the fact remains that private capital will shy away from what is perceived to be an uncertain or unfavourable political climate.

In this regard, the central dilemma for the PNDC was how to construct the political confidence-building measures, which would have entailed increasing the influence of market actors in policy making, without eroding its autonomy or even worse, threatening its political survival. As of the end of 1990, the PNDC had not been particularly successful in resolving this dilemma. And as economic liberalization deepened, the disjuncture between the liberal norms of the market and the authoritarian nature of the regime became more and more evident. By the end of 1990, there were strong pressures for political democratization.

The second reason why supply response under the ERP was slow, irrespective of whatever misgivings the PNDC might have had, was that the emphasis in the programme on reducing state intervention in the economy denied the government the means of promoting the private sector. This was especially so, given the distortions in the trade, capital, product and factor markets, and domestic prices, especially of food; the existence of inefficient monopolies in both the public and private sectors, poor social and industrial infrastructure, and a weak private sector.[109]

For example, in the capital markets, the banking system was in need of a major overhaul and suffered from the public's lack of confidence as a result of the arbitrary demonetization exercises that had been undertaken by the the PNDC in 1982 and also by the Akuffu regime in 1979.[110] In addition, liberalizing the domestic credit markets by eliminating credit controls, credit rationing and interest rate ceilings, led to the situation in which domestic `priority sectors' (agriculture, manufacturing, mining, etc) could not secure adequate bank finance. The major reason for this is that under the second Fund Stand-by, sectoral credit controls were abolished, and given the commercial orientation of the country's banking system, the banks tended to favour domestic trade and import financing.[111]

Furthermore, the emphasis on privatization presupposed that there was a private sector that was ready, willing and able to jump into the space vacated by the state. In the case of Ghana, however, this assumption could not have been further from the truth.

For reasons that were explored in chapter three, the local private sector in Ghana was virtually non-existent. What little local capital there was was developed and nurtured by the state, through for example, restrictive trade practices that offered protection to local manufacturers, and an exchange regime that allowed importers to reap monopolistic profits. Indigenous capital in Ghana had always looked to the state to provide the environment and the guarantees, through a host of incentives, subsidies and regulations, that would enable it to flourish. This was particularly so, given the fact that the most dymamic component of the private sector in Ghana was foreign owned - the subsidiaries of multinational corporations, and Asian and Levantine businesses. For these reasons, local indigenous capital did not exactly welcome the highly competitive environment suddenly created by the PNDC's liberatization policies.

Three sets of problems were created for the PNDC by a weak indigenous private sector. First, the divestment of state enterprises was slow, particularly in those areas reserved for indigenous capital in the government's (1985) Investment Code.[112] By 1991 only 49 state enterprises out of a total of 350 had been divested.[113] Second, in the newly competitive environment, a number of manufacturing concerns went under, a notable example being that of the only factory in the country that produced matches. Third, and perhaps most importantly from a political point of view, was the extent to which dependence on foreign private capital, as against indigenous private capital, was increasing. Privatization came to be seen as synomymous with the promotion of foreign commercial and financial interests.[114] From this perspective, the PNDC's apprehension towards private investment is understandable.

Thus, the major paradox that emerged from a weak market was that the ability of the regime to tackle supply constraints and to provide the confidence-building measures to elicit the desired supply response from the private sector was itself severely curtailed by the emphasis in the Structural Adjustment programme on deregulation and liberalization. In other words, at the same time the PNDC was required to allow the market to allocate resources between production and distribution, it was denied the means of ensuring that the market could do so effectively. And thus the very policies that were supposed to encourage market activity were themselves creating strong disincentives.

This was the most prominent inconsistency in the ERP II, particularly in the latter stages which emphasised growth and investment. As late as the beginning of 1991, nine years into its recovery programme, the government still had to rely on large amounts of external finance for investment owing largely to the absence of the desired supply response. (Public investment ammounted to only 8% of GDP and private investment, 8.9%. The latter figure was mainly attributable to investment in gold mining).[115]

By the end of 1990, it had become clear that the continued sustainability of the ERP was contingent on improving these supply responses. According to government estimates, the share of private investment in gross domestic investment (GDI) would have to increase from a third to one-half, in order to sustain GDP growth.[116] It is in recognition of this supply constraint that the ERP III, which commenced in 1990 and covers the period 1990-93, is devoted mainly to encouraging private sector investment and enhancing other supply responses.[117]

EXTERNAL CONSTRAINTS.

In addition to the domestic constraints outlined above, implementation problems were created by an uncertain external environment. The uncertainties about the outcomes of adjustment stemmed primarily from three sources: first, the inconsistencies in the programme created by Fund-Bank overlap; second, from adverse movements in the country's terms of trade, and after 1987, a growing debt burden; and third, from lags and shortfalls in the financing of adjustment

i) **Problems Arising From Fund-Bank Overlap.**

There is a considerable amount of overlap in the adjustment programmes of the Fund and the Bank and this created implementation problems for the PNDCs ERP. These inconsistencies were most evident in the sequencing and phasing of reform measures which at times resulted in trade-offs between particular policy instruments, conditions and targets.

Historically, the origins of Fund-Bank collaboration began in the early 1970s. The traditional division of labour between the Fund and the Bank began to blur with the creation of the EFF in 1974 and the Trust Fund in 1976. As noted in the previous chapter, prior to this the Fund had focused primarily on short-term balance of payments adjustments and the Bank on providing long-term capital for investment in capital-intensive projects, especially in the mining, energy and transportation sectors.[118] The division of labour was such that the IMF was accorded primary responsibility for exchange rates and balance of payments disequilibria, and the Bank with providing finance for development projects.

The mandate of the EFF, which provided for medium-term adjustment, recognized the link between demand restraint and supply response (production and growth), and thus moved the Fund closer to what had traditionally been the realm of the Bank. The distinction between the two institutions was further blurred by the Bank's creation of the SAL in 1979, in response to the second round of oil price increases, which was designed to address the structural causes of members' balance of payments deficits.[119]

The SAL thus represented as great a shift for the Bank as did the EFF for the Fund. With the EFF and the SAL, the IMF and the World Bank were both providing medium-term adjustment loans tranched over a period of one-to-three years, with both programmes addressing similar policy variables and supporting similar policy objectives.[120]

The establishment by the IMF of the SAF and ESAF in March 1986 and December 1987 respectively, marked a new phase in Fund-Bank overlap. The SAF was created to provide concessional assistance to low-income members facing protracted balance of payments problems and that needed to undertake structural reforms. The SAF was the descendant of the Trust Fund (1976) and its resources consisted of SDR 2.7 billion in loans repaid to the Trust Fund. The ESAF was created to provide additional concessional assistance.[121]

The significance of the SAF and ESAF, as far as Fund-Bank coordination is concerned is that for the first time, a member seeking access had to prepare a policy paper which was to be developed and reviewed jointly by the staffs of both the Fund and the Bank.[122] Although the two institutions have avoided cross-conditionality in the formal or legal sense of exercising vetoes or requiring a member to concur with each other's loans, as Feinberg (1988) notes, cross-conditionality does exist in other more subtle ways.

First, there is **consultative cross-conditionality**, in which close consultations between the staff of the two institutions produce a coordinated or common bargaining position. Second, there is **interdependent cross-conditionality** in which the two institutions have similar instruments and targets in their programmes, and where the failure of a member to meet targets or implement conditions in the programme of one affects the other. The third is in the area of indirect financial linkage in which the `seal of approval' of both institutions is a prerequisite for financial flows, or when either institution withholding credit affects the programmes of the other.[123]

In the case of the PNDC's ERP each of these aspects of cross-conditionality were present. Table 5 below summarizes the IMF and World Bank policy-loans received by the PNDC in support of its economic recovery efforts.

Table 5
Ghana: IMF and World Bank Loans, 1983-90

IMF Facility	Year	Amount (SDRm)
Stand-by	8/83-8/84	238.50
CFF	8/83	120.50
Stand-by	8/84-12/85	180.00 (a)
Stand-by	10/86-10/87	81.80 (a)
EFF + SAF*	11/87-11/90	375.26
ESAF	11/88-11/91	368.10
	Total Committed, 1983-90:	SDR 1,364.10m

World Bank Loan	Year	Amount (US$m)
Reconstruction Import 1	FY 1983	40.00
Export Rehabilitation 1	FY 1984	35.88
Export Rehabilitation 2	FY 1984	40.12
ER 3 (Technical Assistance)	FY 1984	17.10
Reconstruction Import 2	FY 1985	60.00
Health & Education	FY 1986	15.00
Industrial Sector 1	FY 1986	24.95
Industrial Sector 2	FY 1986	28.50
SAL	FY 1987	80.90
Education Sector	FY 1987	34.50
SAL	FY 1987	14.66
Agricultural Services	FY 1987	17.02
SAL	FY 1987	34.00
Institutional Support	FY 1987	10.80
PAMSCAD	FY 1988	10.60
Financial sector	FY 1988	100.00
Public Enterprise	FY 1988	10.50
Cocoa Rehabilitation	FY 1988	40.00
Total Committed, 1983-88:	US$	261.55m

Notes to table 5.: CFF = Compensatory Finance Facility; SAF = Structural Adjustment Facility; EFF = Extended Fund Facility; ESAF = Extended Structural Adjustment Facility; SAL = Structural Adjustment Loan; PAMSCAD = Programme of Actions to Mitigate the Social Costs of Adjustment; FY= Fiscal Year.
* = Loan converted into an ESAF.
a = Loan partially cancelled before end of programme.

Sources: Republic of Ghana, Consultative Group Reports, 1984-88; IMF and World Bank Annual Reports, 1984-87. Matthew Martin, "Negotiating Adjustment and External Finance," 1991.

Consultative cross conditionality occurred in two forms. First, all World Bank policy loans to Ghana between 1983 and 1988 were tied to the existence of a Fund Programme. Second, consultative cross-conditionality was evident in the negotiations that occurred between the PNDC and the two institutions (see chapter four) and also when one agency withheld credits so as not to reduce the bargaining leverage of the other. An example of this occurred in 1986, when as noted above, after the Fund suspended lending under its standby, the Bank also delayed disbursements of its loans.

Interdependent cross-conditionality was most evident in the Structural Adjustment phase of the ERP II where the Fund's SAF and ESAF, explicitly incorporated similar policy variables as the Bank's SALs. And indirect financial linkage occurred in the mobilization of external finance and donor support of the PNDC's adjustment efforts. However, as will be shown below, gaps in the financing of the ERP created implementation problems.

Despite efforts at coordination, the conditions of the Fund and the Bank were not always consistent with each other. Implementation problems were created by trade-offs among objectives and inconsistensies between short and long-term targets. In addition, the blurring of institutional responsibilities at times resulted in duplication of efforts.

The major trade-offs occurred between Stabilization demand-reducing policies and Structural Adjustment supply-enhancement policies. And in some policy areas, they had contradictory effects. In the case of the ERPI, and later in the ERPII, this was most obvious in the contradictory effects within the trade policy area as well as among trade/exchange policy and monetary and fiscal policy on the one hand, and investment and private sector development on the other.

As noted in the previous chapter, in the trade policy area, the sequence of reform in the ERPI and II was first to depreciate the exchange rate and reduce export restrictions followed by the elimination of quantitative restrictions and reductions in tariffs, and then by the liberalization of current international transactions. In the earlier phases of adjustment, the Fund gave greater weight to the short-term balance of payments impact of reforms such as import liberalization. The problem, as the World Bank acknowledges, is that this demand-management emphasis creates an anti-export bias.[124] In the case of Ghana, the concerns about the negative impact of devaluations and an unrestricted import regime on domestic exporters and manufactures, were so great that, as noted in the previous chapter, import liberalization was delayed until 1986.[125]

The government's concerns regarding the sequencing of policy reform and the conditions that were attached, were justified. For example, the elimination of government subsidies on agriculture combined with devaluations, increased the local costs of imported inputs (e.g., fertilizer) and thus the costs of production before farmers could respond to the increased prices.[126] With respect to investment, the government's tight monetary policy, designed to reduce inflation, led to a dramatic increase in the real interest rate resulting in tighter credit. This combined with cuts in government spending, devaluations of the cedi, which increased the local currency requirements of foreign exchange, had a detrimental effect on investment, public and private.[127]

Particularly hurt were small businesses which found it difficult to raise or borrow enough local currency to purchase foreign currency equivalents, or found their debt premiums and interest payments owed to local banks rising dramatically.[128] Another major concern of domestic manufacturers was that trade liberalization was flooding the domestic market with cheaper foreign goods. Many expressed concern that a process of `deindustrialization' was occuring in which domestic manufacturing concerns were being priced out of the market.[129]

ii) <u>Problems Arising from Deteriorating Terms-of-Trade and a Growing Debt Burden</u>.

A major problem that emerged from an uncertain external environment was the adverse movements in the country's terms-of-trade, especially after 1987. Between 1987 and 1989, world prices of the country's principal export - cocoa - fell by over 50%, from US$ 2,190 to US$ 1,372/metric ton. This was a result of a glut on the world market caused by increased production in Ghana and in other cocoa producing countries. Thus although cocoa production in Ghana increased by one-third between 1987 and 1989, export receipts in 1990 were less than they had been in 1987. As a result of this, in 1990, 50% of the country's imports had to be financed by foreign loans and grants.[130]

The deterioration in Ghana's external accounts despite remarkable improvements in export performance, pointed to a major flaw in the emphasis of neoorthodox structural adjustment on export promotion in the absence of export diversification. Where countries are primary exporters with high commodity concentration ratios, given the price elasticities of such products on the world market, increased production and export often lead to lower prices.[131] In the case of Ghana, although efforts were made to reduce the country's dependence on cocoa through a programme of export diversification, by 1990, only two commodities, cocoa and gold, still accounted for almost 70% of export earnings.[132]

Another problem that emerged after 1986 was the dramatic increase in the country's debt burden. Debt-service and other foreign exchange payments to foreign creditors, including IMF "repurchases", which by 1988 had reached 68% of export earnings (58.7% of GDP), had the effect of reducing domestic spending and investment.[133] And after 1987, the IMF became a net recipient of resource transfers from Ghana.

iii) <u>Problems Arising from Shortfalls in Aid Disbursements</u>.

Although the PNDC was able to attract a considerable amount of external financial assistance for its economic recovery programme between 1984 and 1990 (over US$3 billion), problems in the financing of the adjustment programmes emerged in the form of lags and shortfalls in disbursements of aid.

Tables 6 and 7 below summarize the total aid commitments and disbursements received by the PNDC. For the duration of the ERP I and II disbursements of aid lagged well behind donor commitments creating a sizeable pipeline of undisbursed aid. Disbursements as a ratio of total pipeline averaged 22% between 1985 and 1990 (i.e., they were 22% behind schedule). This not only created shortfalls in the projections of various policy programmes to be implemented, but also exacerbated the "financing gap".

For example, in 1983, despite the government's initiation of the ERP, virtually all economic indicators took a sharp downturn from their already precariously low levels. Largely as a result of the severe drought, agricultural output fell by 7.2% and overall GDP declined by 4.6% in 1983. The drought also contributed to a 12% decline in cocoa production that year resulting in an estimated loss of US$ 80m in export receipts.[134]

To compound the government's problems, in addition to the fall in export revenues, net capital inflows for the first year of the ERP were one-third of the initial projections - US$ 113m instead of US$331m. As a consequence of the resulting foreign exchange shortages, imports had to be reduced and government capital expenditures had to be reduced by 43% which delayed the rehabilitation phase of the ERP I.[135]

1985 was another difficult year for the ERP. The net inflow in programme and project aid amounted to US$199m, representing a drop of 21% below the net inflow of $252m in 1984, and the ratio of net to gross inflows was 33%. [136]

The reasons for the disbursement lags and shortfalls included the increase in the proportion of slow disbursing project as against quicker disbursing programme aid. Aid from multilateral donors was largely quick-disbursing programme aid (72%). For bilateral donors, on the other hand, project aid comprised over 70% of total commitments. In addition, there were procurement restrictions and processing delays.[137]

Table 6
Ghana: Aid Disbursement Lag 1985-90. (US$m)

	1985	1986	1987	1988	1989	1990
Undisbursed Balance at Beginning of the year:	514.0	769.0	874.0	1119	1372	1484.0
Newly Signed Commitments:	490.0	396.1	702.0	793.7	868.3	848.4
Total Pipeline:	1004.5	1165.1	1576.0	1912.7	2240.3	2332.4

Table 6 - cont.

	1985	1986	1987	1988	1989	1990
Disbursements:	232.5	375.9	456.5	533.6	585.1	581.6
Disbursements as % of Total Pipeline:	23.1	23.3	29.0	27.9	26.1	24.9

Notes: Pipeline = On-going and newly signed commitments.
Sources: Republic of Ghana, Consultative Group Report, 1991.

Table 7
Consultative Group For Ghana: Aid Commitments and Disbursements, 1984-1990*

Total Aid Commitments (US$m)

1984	1985	1986	1987	1988	1989	1990
426.1	490.5	396.1	702.0	793.7	868.3	848.4

Actual Aid Disbursements (US$m)

1984	1985	1986	1987	1988	1989	1990
263.2 (61.7%)	232.5 (47.4%)	357.9 (90.3%)	456.5 (65%)	533.6 (67.2%)	581.1 (66.9%)	581.6 (68.5%)

Total Aid Commitments, 1984-90 = US$ 4,525.1m.
Actual Aid Disbursed, 1984-90 = US$ 3,006.4m. (66.4%)

* Includes World Bank Loans. Not including IMF credits.
Sources: Republic of Ghana, Consultative Group Reports, 1984-91.

In terms of sources of aid, multilateral institutions including the IMF, the World Bank, the African Development Bank (ADB) and U.N. agencies provided over 70% of new lending in 1983-84, and over 60% between 1985-90. The IMF was the major source until 1986, lending approximately US$200m a year between 1983 and 1986. After 1984, and especially between 1988-90, the World Bank assumed the major role, providing net payments averaging $250m per year.[138] Under the Bank's Special Programme of Assistance (SPA) to sub-Saharan Africa, Ghana received grants and concessional loans totalling over US$ 400m between 1988 and 1990.[139]

Support from bilateral donors was slow in materialising particularly in the earlier stages of the ERPI. The major bilateral donors, under the auspicies of the Bank's Consultative Group for Ghana, included Canada, Japan, France, the U.K., Germany and the USA. With the execption of Canada, most bilateral donors were initially apprehensive about making aid commitments to Ghana largely as a result of the actions and rhetoric of the early PNDC, and doubts about the sustainability of economic reform. Prior to 1986, bilateral aid commitments and disbursements consistently fell short of ammounts requested by the PNDC, the Fund and the Bank. Inspite of the "seal of approval" of the Fund and the Bank, the PNDC had to demonstrate its commitment to economic reform before bilateral aid fell into line. After 1987, bilateral aid increased significantly.

Managing External Constraints:

In managing the implementation problems created by the external constraints outlined above, the PNDC demonstrated a remarkable ability to negotiate concessions and flexible implementation schedules with the external agencies and donors. With the exception of April 1986, when the Fund suspended disbursements of its loans, the implementation of the adjustment programmes launched under the ERPI & II, was characterized by significant innovation and experimentation. As a result, and as the comparison with Zambia's adjustment programme in chapter six shows, the PNDC's programme was distinguished by the greater attention paid to structural issues, higher levels of external financial flows, and greater flexibilty in the choice of instruments and the implementation of conditions, particularly in the areas of trade and exchange policy.

Three factors account for the relative flexibility of the PNDC's programme. First was the quality of Ghanaian negotiators, the extensive preparation undertaken by the negotiating team, and the learning process that occurred in the PNDC. As noted in chapter four, when negotiations first began in 1982-83, the Ghanaian team was highly critical of the standard Stabilization formula which had been applied in earlier adjustment efforts. The results were concessions in the Ghana programme that more accurately reflected the political and economic realities of Ghana, than would have been the case with the standard adjustment formula.

Prominent examples of this flexibility in the Ghana programme were the multiple exchange rate system adopted in 1983, the `managed' foreign exchange auction adopted in 1986, and the delay in implementing certain instruments in regards to import liberalization until after 1986, particularly the removal of import licenses. Other examples include the reduction in the size of the privatization programme by the World Bank in response to the PNDC's concerns, the PNDC's insistence on maintaining controls on capital outflows despite the liberalization of current international transactions, the establishment of the foreign exchange bureaux in 1988, and the establishment of PAMSCAD in 1987.[140]

The second reason for the greater flexibility in the PNDC's programme reflected changes within the Fund itself and the growing influence of the Bank, particularly in its role of securing external finance for the ERP. With respect to the Fund, the PNDC was among the first recipients of the SAF and ESAF, and since these facilities were largely `untried', implementation entailed experimentation.

If the implementation of the Stabilization and Rehabilitation phases of the ERP was characterized by short-term crisis management, then the implementation of the Structural Adjustment phase was characterized by `muddling through' in which the Fund, the Bank and the PNDC `learned by doing'.[141] The results were some of the inconsistencies and contradictions in the sequencing and phasing of policy instruments described earlier.

At the same time that its newer facilities were being introduced, there were other changes in the IMF's approach to adjustment lending. These changes involved according greater prominence to IMF Resident Representatives and regional department staff in the design of, and negotiations for, various facilities.[142] As a result of these changes, in the case of the PNDC's programme, greater effort was made to tailor the programme to suit the country's circumstances.

It is important to emphasize that these innovations notwithstanding, the Ghana programme still conformed with the broad neoorthodoxy. And the flexibility the Fund and the Bank demonstrated with respect to Ghana did not in any way signify a change in their lending practices. Indeed, as chapter six shows, this flexibility was not present in the adjustment efforts of Zambia. The response of the Fund and the Bank to Ghana was shaped by the PNDC's track record - the speed and rigour with which it implemented conditions and achieved targets, the failure of other adjustment efforts in Africa, and the improvement in broad macroeconomic indicators including GDP growth, and the budget and current account deficits - which indicated to these institutions that aspects of the PNDC's programme were working.[143] As a result of these factors, a strong constituency in favour of Ghana developed among donors.

[Section Three]

CONCLUSION.

The political challenges and implementation problems encountered by the PNDC in its efforts to sustain the ERP I and II have been grouped into two categories: Domestic constraints (costs and risks arising from domestic political opposition; and costs and risks arising from a weak state and a weak market); and

External Constraints (costs and risks arising from Fund-Bank overlap, the `financing gap', and from a deteriorating external economic environment).

Given the kinds of political and implementation problems encountered by the PNDC analyzed in section two above, it is difficult to believe the PNDC was able to sustain its economic recovery efforts. If one had to predict, at the beginning of the ERP in 1983, what the prospects of sustainability were, the answer would most likely have been negative. Yet, as the analysis in this chapter has shown, in a curious way, the sustainability of the ERP I and II was aided by the fact that Ghana presented such a `worst case' scenario, economically and politically.

The depth of the pre-adjustment economic and political crisis in Ghana shaped the PNDC's adjustment efforts in several ways. First, the depth of the economic trough to which the country had sunk over the preceding decade or so, but especially after 1978, had by 1982 wholly undermined the basis of the politics of distribution. The state could no longer afford to use fiscal expansionism and a restrictive trade regime as a political tool. In addition, the economic crisis resulted in the fragmentation and weakening of social forces and their disengagement from state and formal economic networks.

As a result, the PNDC enjoyed a considerable degree of autonomy and insulation from the broad spectrum of societal demands which limited the ability of social forces to influence the policy directions of the state. This autonomy was further strengthened by the PNDC's refusal to institutionalize itself by rooting its support in any particular social formation for any length of time.

The second way in which the economic and political crisis shaped the PNDC's adjustment efforts was through the state. One of the most significant consequences of the economic crisis was the severe debilitation of the state, particularly the armed forces and the central bureaucracy. Added to this was the deliberate weakening of traditional state structures by the PNDC. Consequently, the PNDC was able to exercise a considerable degree of control over the other branches of the state apparatus, and centralize economic policy making in an insular, small and closed circle of Ghanaian technocrats and their counterparts in the IMF and the Bank.

The political and economic support from the international donor community, manifest in the development of a strong constituency among donors and in the special interest taken in Ghana by the World Bank especially, was the third factor that contributed to the sustainability of the ERPI & II. By 1990 Ghana was one of the largest recipients, on a per capita basis, of external finance in sub-Saharan Africa.

The fourth factor identified as having contributed to the sustainability of the ERP, was political learning on the part of the PNDC which was manifest in a high degree of commitment and `political will', pragmatism, and its statecraft in building support and/or containing opposition.

Several observations on the question of sustainability emerge from the analysis in this chapter. The strength and validity of these findings which are briefly summarized below, will be examined in greater detail in the concluding chapter after a comparison is made of Ghana's adjustment efforts with other adjustment efforts in Africa in chapter six.

The first set of observations points to an apparent paradox regarding the relationship between state and society in sustaining adjustment. Two of the four factors identified in this chapter as having contributed to the sustainability of the ERPI & II appear to be paradoxical in the sense that they appear to depart from what the literature on the politics of adjustment has identified as necessary for sustainability.[144] These factors, noted in chapter two, include well-institutionalized support bases for the regime and well-developed administrative capacities. Yet for Ghana, it was the obverse: it was the lack of institutionalization of the PNDC, and the overall debilitation of the state that aided in the sustainability of the ERP.

Upon closer examination, however, this apparent paradox is resolved by the following observation. The different phases of adjustment in Ghana elicited different political challenges which required different approaches to management. In the earlier Stabilization and Rehabilitation phases, where the reform process was primarily top-down, the lack of institutionalization of the PNDC and the insular policy making structures, did assist in implementation. In the Structural Adjustment phase, however, where the reform process became more dependent on impersonal supply responses that were not necessarily under the direction of the state, the lack of institutionalization of the PNDC and its insular character became a drawback.

Two findings that have potential implications for theory and for policy emerge from this observation. In terms of theory, this observation cautions against making generalizations that collapse the requirements for sustaining the different phases of adjustment. The political costs and risks engendered by adjustment vary both across the different phases and within each phase. In terms of policy, it suggests that the Fund, the Bank, and governments need to be more sensitive to the different political challenges elicited by Stabilization and Structural Adjustment and the different political requirements for sustainability.

The second major finding suggests a link between democratization (i.e., public participation in decision making and political confidence-building) and Structural Adjustment (i.e., eliciting supply responses from market actors). The experiences of Ghana suggest not only that democratization is necessary to sustain Structural Adjustment, especially where there is a need to deepen supply responses, but also that the policies implemented under Structural Adjustment themselves lead to demands for democratization.

The third major observation points to the role of learning in terms of shaping a government's commitment to adjustment and its statecraft in managing costs and risks. As the analysis in this chapter has shown, however, there are limits to the ability of a government to learn. In the case of the PNDC, the legacy of its early repression and the combined effects of sycophancy and the culture of silence robbed the government of what had originally been a source of strength - its willingness and ability to learn from its mistakes.

Sycophancy, the rigid control over the media, absence of public debate, and apathy, restricted the channels through which information about the consequences of various policies was communicated to the regime. This observation points to an important finding: political learning is a function of communication and feedback. The ability of a government to learn is shaped by the channels of communication through which information about the effects and consequences of various policy actions reaches decision makers.

Thus, the learning process that occurred in the early phases of the PNDC was facilitated by the differences and dissension within its ranks and in its support bases. As the PNDC became more insulated and more homogenous in terms of ideology, obstacles to learning soon emerged which slowed the learning process.

The fourth set of findings point to the role of the external environment, particularly to the importance of financing for adjustment. Adjustment and financing are not to be seen as mutually exclusive but as two sides of the same coin.

Sustaining adjustment requires adequate finance, especially given the limitations of neoorthodox Structural Adjustment.

In the case of Ghana, at the root of these limitations were flaws inherent in the design of the adjustment formula itself, and inconsistencies in the phasing and sequencing of particular instruments, targets and conditions. Perhaps most importantly, the most prominent shortcoming of neoorthodox Structural Adjustment in Ghana, was the failure to examine the political assumptions and requirements of economic prescriptions, particularly in the relationship between the state and the market in the areas of consumption, distribution, production and investment.

Despite the `structural' nomenclature, and the new euphemisms - "adjustment with growth" - and despite the improvement in broad macroeconomic indicators, the problems encountered by the PNDC, and the social and political costs engendered by the programme, illustrate that neoorthodoxy has not been particularly successful in dealing with the paradox of using the state to change policy in a less statist direction.

NOTES

1. Republic of Ghana, Economic Recovery Programme, 1984-86 v.1. 1983. Paris and Accra, p.12.

2. Republic of Ghana, Economic Recovery Programme, ibid, pp.12-13.

3. See Jon Kraus, "The Political Economy of Stabilization and Structural Adjustment in Ghana." in Rothchild (ed) Ghana: The Political Economy of Recovery. 1991, p.126. See also, John Loxley, Ghana: Economic Crisis and the Long Road to Recovery, Ottawa: North-South Institute, 1988.pp

4. Republic of Ghana, PNDC Budget Statement and Economic Policy for 1984, 1985 and 1986. See also, J. Dirck Stryker et.al. Trade Exchange Rate and Agricultural Pricing Policies in Ghana. 1990. p.81.

5. Republic of Ghana, "PNDC Budget Statement and Economic Policy for 1987." Accra, 1987. p.5.

6. Republic of Ghana, "PNDC Budget Statement and Economic Policy for 1987," Accra, 1987. See Also, National Programme for Economic Development, Accra: Government of Ghana, 1987, pp.9-10.

7. World Bank, "Ghana", in Trends in Developing Countries, 1991, p.223.

8. Government of Ghana, "A Programme of Structural Adjustment." Report Prepared for the Fourth Meeting of The Consultative Group for Ghana, Paris and Accra. May 1987. p.i.

9. See Government of Ghana, "Economic Recovery Programme 1984-86: Review of Progress in 1984 and Goals for 1985, 1986." Report Prepared by the Government of Ghana for the Second meeting of the Consultative Group for Ghana. Paris, December 1984. (Accra, November 1984) p.vii.

10. Interview, Accra. July 1991. This is confirmed by Mathhew Martin, "Negotiating Adjustment and External Finance", in Donald Rothchild (ed) Ghana: The Political Economy of Recovery 1991, p.249.

11. See interview with Kwamena Ahwoi, PNDC Secretary for Local Government in West Africa, Dec 19-25, 1988.

12. See Statement by Prof. Adu Boahen, a prominent critic of the PNDC, in Christian Messenger, July/August, 1988, p.3.

13. Confidential Interview, Accra, July 1991.

14. For a discussion of the role of distributional coalitions in Africa, see Robert Bates, Markets and States in Tropical Africa, 1981.

15. Because of the high level of political activation of these groups, it is easy to exaggerate their influence in national politics, particularly in terms of shaping the policy directions of the state. This has been the tendency in society-centred analyses. See Naomi Chazan, 1983 and 1989. See Hutchful, 1990, p. 8.

16. See Chapter three, especially pages 157-169.

17. See Hutchful, "Structural Adjustment and Political Regimes in Africa," (mimeo) 1990, pp. 12-15; Naomi Chazan, "The Political Transformation of Ghana Under the PNDC," in Donald Rothchild (ed) Ghana: The Political Economy of Recovery, 1991, pp.21-47.

18. Chazan, 1983, 1988 and 1991 provides detailed analyses of the forms and degrees of societal disengament from the state in Ghana.

19. See Kwame Ninsin, "Ghanaian Politics After 1981: Revolution or Evolution?" Canadian Journal of African Studies, 21, 1, 1987, pp. 17-37.

20. Adotey Bing, "Popular Participation Versus Peoples' Power: Notes on Politics and Power Struggles in Ghana." Review of African Political Economy 31, 1984, pp.91-104.

21. See Chapter Three, p. 171.

22. Interview with civil servants, Accra, July, 1991. With respect to security of tenure, the PNDC abolished the positions of `Senior Principal Secretary' and `Principal Secretary' (the top two civil service positions in any government ministry) and replaced them with `Acting Chief Directors' and `Acting Directors.' By insisting that all the top positions be made `acting', and hence temporary, senior managers of government ministries could be, and were, removed easily by the PNDC without the approval of the Civil Service Commission, the body that normally dealt with such issues. Security of tenure was further eroded with the commencement of the public service retrenchment exercise in 1987.

Another method employed by the PNDC to control the activities of state managers was through the public disclosure of their activities. State managers who had committed wrongful acts in the eyes of the PNDC were routinely exposed to public ridicule, or hauled before the Public Tribunals, if their offences were deemed serious enough. The Public Tribunals, created by the PNDC in 1982, existed alongside the traditional courts and were designed to mete out summary `revolutionary' justice. See chapter four.

23. See Eboe Hutchful, 1990, op.cit, pp. 16-17.

24. Hutchful, "Str ctural Adjustment and Political Regimes in Africa," 1990, p.17

25. This information is based on interviews with the World Bank Resident Representative in Ghana and with the Counsellor at the Canadian High Commision in Ghana. July 1991.

26. See Africa Report, Nov.-Dec. 1986. pp. 4-8.

27. For an interesting look at the commitment of the PNDC, see Richard Jeffries, "Leadership Commitment and Political Opposition to Structural Adjustment in Ghana." in Rothchild (ed) Ghana: The Political Economy of Recovery, (1991) pp. 157-171; See Also, Joan Nelson, "The Political Economy of Stabilization: Commitment, Capacity and Public Response," in Robert Bates (ed) Toward a Political Economy of Development (Berkeley: Univ. of California Press, 1988) pp. 80-130.

28. See Chapter four, pp. 251-256.

29. J.S. Addo, Governor of the Bank of Ghana, in G.K. Helleiner (ed) Africa and the International Monetary Fund. (Wash, D.C. IMF, 1986) p.154.

30. See West Africa January 12, 1987, p. 64.

31. This observation is based on discussions with Fund and Bank personel in Ghana and Ghana government officials.

32. Interview with Dr. Kobina Erbynn. Accra. July 1991.

33. Institutionalization here refers to vocational groups that have identifiable organizations to represent their collective interest either by way of a trade union or any other form of occupational or professional association.

34. See Donald I. Ray, Ghana: Politics Economics and Society, (London: 1986) ch.7.

35. The phenomenon of `allowances' is an interesting aspect of wage and salaried employment in Ghana. In some cases the non-taxable allowance component equals or exceeds the actual wage or salary. These allowances include `inducement allowances', housing and car allowances, `retention allowances', etc.

36. See Chapter four, pp. 237-238.

37. This observation is found in Stephen Younger, "Ghana: Economic Recovery Programme - A Case Study of Stabilization and Structural Adjustment in sub-Saharan Africa," World-Bank Policy Case Series #1, 1990, p. 142, note 5, and is supported by interviews conducted by this author in Accra in June 1991.

38. Republic of Ghana, "Progress of the Economic Recovery Programme, 1984-86 and Policy Framework, 1986-88," Report Prepared for the Third Meeting of the Consulatative Group for Ghana, Accra, 1985; World Bank, Ghana: Managing the Trasition, Report No. 5289-GH, 1984, p.xii.

39. Stephen Younger, 1990, op.cit, p.143.

40. See Richard Jeffries, 1991 pp. 160-161.

41. See Kwesi Jonah, "The Social Impact of Ghana's Adjustment Programme, 1983-86," in Bade Onimode (ed), The IMF, The World Bank and the African Debt, vol 2, (London: Zed, 1989) pp. 140-152.

42. Interview with PAMSCAD Director, Accra, July 12, 1991.

43. See Republic of Ghana, Consultative Group Report, 1986-88. Accra, 1985. p.30.

44. Republic of Ghana, "Enhancing the Human Impact of the Adjustment Programme," Report Prepared for the Sixth Meeting of the Consultative Group for Ghana. Accra, April 1991, p.39.

45. See Republic of Ghana, "Economic Recovery Programme 1984-86: Review of Progress in 1984 and Goals for 1985 and 1986", Report Prepared for the Second Meeting of the Consultative Group for Ghana, December 1984. p.6.

46. Republic of Ghana, ERP, 1984-86, ibid, p.6.

47. Republic of Ghana, "Enhancing the Human Impact of the Adjustment Programme" Consultative Group Report, May 1991, p. 40.

48. This was revealed to the author in confidential interviews in Accra with goverment officials and officials of private voluntary organizations.

49. See Structural Adjustment in Africa: Insights from the Experiences of Ghana and Senegal, Report of a Staff Study, U.S. Government Cogressional Report, March 1989, pp. 10-11.

50. Republic of Ghana, "Enhancing the Human Impact of the Adjustment Programme," May 1991, p.39

51. Republic of Ghana, Programme of Actions to Mitigate the Social Costs of Adjustment, p.1.

52. Republic of Ghana, "Enhancing the Human Impact of the Adjustment Programme," Consultative Group Report, May 1991, p. 40.

53. Confidential interview, Accra, July 10, 1991.

54. Republic of Ghana, Programme of Actions to Mitigate the Social Costs of Adjustment, p.2.

55. Interview with PAMSCAD Director. Accra, July 10, 1991.

56. Interview With PAMSCAD director. Accra July 10 1991.

57. Address by Flt.Lt. Rerry John Rawlings to the Plenary Session of the Congress of the TUC, Kumasi. Dec 14, 1983. In "Selected Speeches of J.J. Rawlings, 1983. pp. 55-56.

58. For an interesting analysis of the changes in the PNDC's relationship with labour, see Yoa Graham, "From GTP to Assene: Aspects of Industrial Working Class Struggles, 1982-86," in Hansen and Ninsin (eds), The State, Development and Politics in Ghana, (London: Codesria, 1989) pp. 43-72; Kwame Ninsin, "The PNDC and the Problem of Legitimacy," in Donald Rothchild (ed), Ghana: The Political Economy of Recovery, (1991) pp. 49-67.

59. See Republic of Ghana, "Economic Recovery Programme, 1984-86," Report Prepared for the Second Meeting of the Consultative Group for Ghana. Paris, Dec. 1984. (Accra: November 1984) p.14.

60. World Bank, Ghana: Public Expenditure Review, 1989-91, Report No. 7673-GH. (Washington, D.C.: World Bank, Oct 30, 1990). p.1.

61. World Bank, Ghana: Industrial Policy Performance and Recovery. 1986.

62. For descriptions of these, see chapter four, pp. 239-243.

63. See John Loxley, Ghana: Economic Crisis and the Long Road to Recovery. 1988, pp. 48-50.

64. Interview with senior officials at the Ministry of Finance and Economic Planning in Accra. July 1991.

65. West Africa, 24 November 1986, p. 2453; Emil Rado, "Ghana: Long Road to Recovery," in West Africa, 14 July 1986, p. 1466

66. For example, Mr. Tsatsu Tsikata, who was the chairman of the Ghana Petroleum Company, Dr. Kobina Erbynn who was the Chairman of the Ghana investments centre, and Dr. J.L.S Abbey who was made an ambassador.

67. See Chapter four, pp. 225-231.

68. Interview with Dr. Kobina Erbynn. Accra, July 16, 1991.

69. Interview with Dr. Kobina Erbynn. Accra. July 16 1991.

70. A similar observation is made by Hutchful, 1990, op.cit, p.17.

71. Confidential interview. Accra, July 1991.

72. These incidents were reported in the foreign press and in one of the few independent newpapers operating in the country at the time - the "Ashanti Pioneer". See for example, "Amnesty International Report," 1984 (London) pp. 48-53.

73. Douglas Rogers provides an interesting account of his experiences with sycophancy in Ghana under the PNDC. See Douglas Rogers, "Contradictions that Threaten the Survival of the PNDC," in The Dawn, September 1986, p. 5.

74. Speech by Professor Adu Boahen in the Christian Messenger July/August 1988, V.5, # 6 & 7. p. 3.

75. See Richard Jeffries, 1991, pp. 157-171.

76. For similar arguments, see Eboe Hutchful, "Structural Adjustment and Political Regimes in Africa," unpublished manucript, 1990, pp.7-9.

77. West Africa, 12 January, 1987, p. 59.

78. See West Africa, July 25, 1988, p.1340 and Nov 7-13 1988, p.2115.

79. West Africa, Dec. 26 1988, p.2435.

80. See chapter three, pp. 142-143. These groups included the ARPB, the Christian Council of Ghana, the National Union of Ghana Students, etc.

81. See Thomas Biersteker, "Reducing the Role of the State: A Conceptual Exploration of IMF and World Bank Prescriptions," In International Studies Quarterly, 34, 4 (December 1990) p. 485.

82. See Thomas Biersteker, "Reducing the Role of the State" (1990) ibid; Robin Broad et.al, "Development: The Market is not Enough," in Foreign Policy, 81 (Winter 1990-91) pp. 144-162.

83. This is taken from the title of Thomas Callaghy's article, "Lost Between State and Market: The Politics of Adjustment in Ghana, Nigeria and Zambia," in Joan Nelson (ed) Economic Crisis and Policy Adjustment, 1990.

84. This is an observation made by economic historians. See Peter Evans and Deitrich Reuschemeyer, "The State and Economic Transformation," in Evans, Reuschemeyer and Skocpol (eds), Bringing the State Back In, 1985, pp. 44-47.

85. For arguments along a similar vein, see Peter Evans and Dietriech Reuschemeyer, "The State and Economic Transformation," in Evans et.al, Bringing the State Back In, 1985. See also, Eboe Hutchful, 1990, "Structural Adjustment and Political Regimes in Afrca," pp. 7-8; and Roger Tangri, "The Politics of Government-Business Relations in Ghana," Journal of Modern African Studies, 30, 1 (March 1992) p. 107.

86. For a similar argument, see Thomas J. Biersteker, 1990, pp.489-492.

87. See Chapter three, pp. 132-142.

88. This point is made by Eboe Hutchful, 1990, p.5 and p. 14.

89. See Chazan, "The Political Transformation of Ghana Under the PNDC," 1991, pp.25-27.

90. Chazan, 1991, pp. 26-28, describes in some detail the nature of these survival strategies.

91. See Selected Speeches of J. J. Rawlings, various issues, 1986-1990.

92. Interview with officials at the Ministry of Labour and Social Welfare, Accra, July 1991. See Also Hutchful, 1990, p. 14.

93. See Matthew Martin, "Adjustment and External Finance," 1991, p. 247.

94. Chazan, 1991,op.cit, p.33.

95. Although street hawking has always been part of the urban landscape in Ghana, the sheer number of employable young people and of children who should have been in school, pointed to a major failing of adjustment.

96. Republic of Ghana, Consultative Group Report, 1987. p. 26.

97. See Ahwireng-Obeng, "Entrepreneurial Revolution for the African Third World: The Case of Ghana." in Canadian Journal of Development Studies, 9, 1, (1988) pp. 19-35.

98. Chazan, 1991, op.cit, p.33, Ahwireng-Obeng, op.cit.

99. This development is similar to the concept of the `exit option'developed by Hirschman and applied very eloquently to Africa by Goran Hyden. See Albert Hirschman, Exit, Voice and Loyalty, (Cambridge, Mass: Harvard, 1970) and Goran Hyden, No Shorcuts to Progress, 1983. The major difference between the growth of the informal economy in Ghana and Hyden's treatment of the exit option is that in the case of Ghana, the exit option was not restricted to peasants in the rural areas. The growth of informal sector in Ghana was just as pervasive in the urban centres.

100. For a good analysis of the relationship between the PNDC and private capital, see Roger Tangri, "The Politics of Government-Business Relations in Ghana," 1992, pp. 97-111.

101. Interview with the Chairman of the Ghana Investments Centre, July 1991. See also comments by Dr. Ishan Kapur, IMF Division Chief, West Africa III, in Daily Graphic, July 2, 1991, p.1.

102. Interviews conducted with representatives of the Ghana Chamber of Commerce and selected foreign enterprises in Ghana, June and July, 1991.

103. Interview with Silvio Capluongo, World Bank Resident Representative to Ghana, July 11, 1991.

104. Address dilivered by Flt. Lt. Rawlings at the National Investment Promotion Conference, Accra, 26-28 February, 1990. In The Investor, Ghana Investments Centre, v.1, No 1, (Oct -Dec, 1990) pp. 5-8.

105. See Roger Tangri, 1992, p. 99. See also, Ghana Investments Centre, "Discussion Paper on private Sector development Issues 1989/90," 1990, p.3.

106. Roger Tangri, op.cit, pp. 100-101. When this author visited Ghana in June of 1991, two prominent businessmen, B.A. Mensah of International Tobacco (Gh) Ltd and Kwame Safo-Addo of Imperial Chemical Laboratory Ltd were before the Public Tribunals, accused of `economic sabotage'.

107. Interview, Accra, June 1991. This is supported by Roger Tangri's observations. See Tangri, 1992, p. 100.

108. One government official, who requested annomymity, was candid enough to admit that political instability and uncertainty were the major obstacles to attracting private investment.

109. See Matthew Martin, "Adjustment and External Finance," (1991) p. 247.

110. As noted in Chapter four, the PNDC in 1982, withdrew the C50 note from circulation and confiscated all bank balances above C50,000. By 1990, most of this money had not been returned. An earlier demonetization exercise had been carried out by the Akuffu regime in 1979 which attempted to mop-up some of the excess liquidity by changing the cedi notes. For a good account of the problems in Ghana's banking system, see Nii Kwaku Sowa, "Financial Intermediation and Economic Development," in Hansen and Ninsin (eds), The State, Development and Politics in Ghana, (London: Codesria, 1989) pp. 116-136.

111. Interview with officials at the Bank of Ghana, Accra, July 1991. See also, Cadman Atta Mills, Structural Adjustment in Sub-Saharan Africa, World Bank-EDI, 1989, pp. 14-15.

112. See Republic of Ghana, Investment Code, PNDC Law 116, 1985, pp. 19-20.

113. Roger Tangri, 1992, op.cit, p. 110.

114. Interview, Accra, July, 1991.

115. See Republic of Ghana, "Enhancing the Human Impact of the Adjustment Programme," Report Prepared by the Government of Ghana for the Sixth Meeting of the Consulative Group for Ghana, Paris 14-15 May, 1991. (Accra, April 1991) Annex tables 1 and 2.

116. Republic of Ghana, Consultative Group Report, 1991.

117. Interview with Dr. Kobina Erbynn, Accra, July 16, 1991.

118. For a fuller account, see Edward S. Mason and Robert E. Asher, The World Bank Since Bretton Woods, (Washington, D.C.: Brookings, 1971).

119. World Bank, Annual Report 1980, Washington, D.C.: World Bank, pp. 67-68.

120. See Richard E. Feinberg, "The Changing Relationship Between the World Bank and the IMF," in International Organization, 42, 3, (Summer 1988) pp. 548-549.

121. See IMF, Annual Report 1989, (Washington, D.C.: IMF) pp. 34-35.

122. Richard E. Feinberg, op.cit, p. 557.

123. Richard E. Feinberg, 1988, ibid, pp. 552-559.

124. See World Bank, Adjustment Lending: An Evaluation of Ten Years of Experience, p.37.

125. See chapter four, pp. 241-243.

126. Republic of Ghana, "Economic Recovery Programme, 1986", p.36.

127. See John Loxley, 1988, op.cit, p. 16, pp.31-32.

128. An interesting story was in this regard is the case of a local businessman who in 1982, before the ERP I began, borrowed c75,000 to purchase a commercial fishing vessel. By 1986, because of the depreciation in the local currency, the cost of the boat had increased to c3.5m and his interest payments had more than tripled. He was unable to make his payments and the boat was reposessed by the bank. This scenario was all too common to small businesses in Ghana.

129. Interview with representatives of the Ghana Chamber of Commerce, Accra, July 1991. For an illuminating account of how Structural adjustment policies can lead to the decline of manufacturing in an LDC, see Colin Stoneman, "The World Bank and the IMF in Zimbabwe," in Campbell and Loxley (eds) Structural Adjustment in Africa, 1989, pp. 37-66.

130. Republic of Ghana, "Enhancing the Human Impact of the Adjustment Programme," Report Prepared for the Sixth Meeting of the Consultative Group for Ghana. Accra April 1991. pp. 6-8.

131. This argument - demand and supply elasticity pessimism - goes to the heart of structuralist critiques of neoorthodox adjustment. See for example, John Loxley, "Alternative Approaches to Stabilization in Africa," in Gerald Helleiner (ed), Africa and the IMF, Washington, D.C.: IMF, 1986, pp. 117-147.

132. According to Government of Ghana estimates, by 1995, gold would have achieved a rough parity with cocoa in export earnings. See Republic of Ghana, "Enhancing the Human Impact of the Adjustment Programme," Report Prepared for the Sixth Meeting of the Consulataive Group for Ghana. Accra, April 1991. pp. 12-13.

133. Republic of Ghana: "Enhancing the Human Impact of the Adjustment Programme," Consultative Group Report. May 1991, pp. 49-53.

134. World Bank, Ghana: Policies and Programme for Adjustment, 1984.

135. Stephen Younger, 1989, pp.141.

136. Republic of Ghana,"Economic Recovery Programme, 1986-88", p.38.

137. Loxley, 1988, op.cit, pp. 42-43.

138. Republic of Ghana, Consultative Group Reports, various issues; John Loxley, 1988, p. 43; Matthew Martin, 1991, pp. 251.

139. Under the SPA, ten bilateral donors including the EEC and the African Development Fund provided loans which were co-financed with the Bank's IDA.

140. These innovations are described in greater detail in chapter four, pp. 237-245.

141. Interview, Accra, July 11, 1991.

142. Interview with Robin D. Kibuka, IMF Resident Representative to Ghana. Accra July 8, 1991. See also, Matthew Martin, 1991, p. 250.

143. Interview with Robin D. Kibuka, Accra, July 8, 1991. See also comments by Dr. Ishan Kapur, Division Chief, West Africa III of the IMF in Daily Graphic July 2, 1991. p. 1.

144. See Joan Nelson, (ed) Economic Crisis and Policy Choice, 1990. For a summary of this literature, see chapter two, pp. 28-39.

PART THREE

FINDINGS AND CONCLUSIONS

CHAPTER SIX

ZAMBIA: A CASE OF UNSUSTAINED ADJUSTMENT.

Introduction.

This chapter assesses the strength and validity of the theoretical and empirical observations made with respect to policy choice and implementation in Ghana under the PNDC by comparing the PNDC's adjusment efforts with that of Zambia, as a case where the government was unable to sustain its reforms. The chapter is divided into three sections. Section one examines the political economy of policy choice in Zambia from 1981 to 1987 and compares the factors that shaped policy in Zambia with that of the PNDC. Section two examines the political economy of the implementation of Zambia's adjustment programme and compares the factors affecting sustainability. Section three, the concluding section, assesses the validity of the findings.

[Section One]

Overview of the Zambian Case:

Zambia achieved political independence in 1964 under the leadership of Kenneth Kaunda and the United National Independence Party (UNIP). In 1973, the country became a one-party state with the UNIP as the sole authorized party, and remained that way until 1991 when Kaunda and the UNIP were defeated in a national election.

Prior to 1973, Zambia made little use of IMF resources. Strong rates of economic growth and a relatively healthy external payments position made this possible. After 1973, the economic fortunes of Zambia took a turn for the worse and greater use was made of IMF facilities. Between 1973 and 1978, three Stand-by Arrangements were negotiated for a total of SDR 398m. In addition, Zambia made several drawings of the Fund's Oil Facility and the Compensatory Finance Facility. The first of the three Stand-bys negotiated in 1973 was unconditional since the drawings were equal to 25% of Zambia's quota. The Stand-bys of 1976 and 1978, however, were conditional and were essentially orthodox stabilization packages involving demand-restraining policies, credit ceilings and devaluations of the national currency, the Kwacha, by 20% (in local currency terms) in 1976 and 10% in 1978.[1]

Between 1981 and 1987, Zambia negotiated four new policy programmes with the IMF. These four programmes, briefly summarized below, are the focus for comparison with the PNDC's economic programme.

1) May 1981, a three year Extended Arrangement. SDR 800m. Cancelled by the IMF for non-compliance in July 1982.

2) April 1983, a twelve month Stand-by Arrangement. SDR 211m. Cancelled by the IMF in June 1984.

3) July 1984, a twenty-one month Stand-by Arrangement. SDR 225m. Cancelled in February 1986.

4) November 1986, a twenty-four month Stand-by Arrangement. SDR 229m. In May 1987 President Kaunda announced that this agreement was terminated and that Zambia was abandoning any further

dealings with the IMF.

In terms of overall macroeconomic policy, the policy packages negotiated with the IMF in 1981 and 1983, (and those negotiated in the 1970s) centred on stabilization goals.[2] The Structural Adjustment phase began in 1983 and it was only after the commencement of the Zambian version of an Economic Recovery Programme (ERP) in September 1985 that attempts were made to undertake structural reforms. Thus although Zambia had a relatively long history of involvement with Fund programmes, its experience with Structural Adjustment was comparatively brief.[3]

Between 1987 and 1989, Zambia attempted to pursue its own `homegrown' adjustment programme - the Interim National Development Plan (INDP) - without the involvement of the Fund and the Bank. Lack of donor support, however, doomed this effort to failure. In 1989, the UNIP government again negotiated an adjustment programme with the Fund and the Bank. This latest programme, as with past programmes, was cancelled in September 1991, six weeks before Zambia's first multiparty elections in over two decades, in which Kaunda's UNIP was defeated by the Movement for Multiparty Democracy (MMD) led by Frederick Chiluba.[4]

Thus, between 1981 and 1987, four agreements were reached between the Zambian government and the IMF none of which were fully implemented nor successful in achieving their objectives. For each of the programmes, problems arising from a lack of government commitment to the adjustment process, from domestic political opposition, from institutional weaknesses within the state, from an unfavourable external environment, and from flaws in the design of the adjustment programmes themselves adversely affected sustainability.

The analysis below examines in some detail the factors shaping policy choice and implementation in Zambia, from 1981-1987, beginning with an analysis of key trade and exchange policies.

Policy Responses, 1981-87:

The three IMF Standbys implemented by the Kaunda government between 1973 and 1978, which were briefly described above, failed to arrest the decline in the Zambian economy. In 1978, the toughest budget the country had witnessed was introduced involving cuts in government spending, reductions in subsidies, tax increases and a devaluation of the national currency by 10% in local currency terms.[5]

As the world economy moved deeper into recession following the second round of oil price increases in 1979, further depressing world copper prices, the decline in the Zambian economy continued. In 1981, import volumes in Zambia had declined by 20%, exchange reserves had declined precipitously, the current account deficit stood at $560m and arrears in external payments stood at $470m.[6] Thus in 1981, the government again approached the IMF and a new agreement was reached.

The 1981 agreement made use of the IMF's Extended Fund

Facility covering the period 31-84, through which an SDR 800m (US$ 913m) line of credit was extended to Zambia, the second largest credit ever extended to an African government.[7] This programme was tied to a three-year World Bank Public Investment Programme. Under the terms of this agreement, conditions were set on domestic credit levels, and specific targets were set for reductions in the budget and current account deficits, and the reduction in arrears on payments of external debts. In addition, targets were set for mineral and agricultural production.[8] However, no initiatives were announced with respect to the exchange rate and to the liberalization of external trade.

In July 1982, the programme was cancelled by the IMF following Zambia's inability to meet payments arrears, achieve targets on credit ceilings and reduce its payments deficit. In January 1983, Zambia suspended payments of its external debts (debt service amounted to 47% of its export earnings) and devalued its national currency by 20% in local terms. This paved the way for a new agreement with the IMF that was signed in April 1983.[9]

The April 1983 programme was a twelve month Stand-by Arrangement through which an SDR 211m line of credit was extended to Zambia. Many of the conditions in the 1981 programme were retained, including ceilings on money supply and credit. Targets were set for a reduction in the government deficit to 5.6% of GDP, wage increases were restricted to 5% until 1984, and food subsidies were cut to reduce government expenditures. In addition, prices of basic food stuffs were allowed to increase. For example, the price of maize meal, a food staple, increased by 30%.[10]

Following the intitial devaluation of the Kwacha in January 1983, the currency was pegged to a basket of currencies of the country's major trading partners in July 1983. The effect was a depreciation in the value of the currency by 38.5% in local currency terms.[11] The Zambian government did achieve some successes in implementing the conditions and targets of this programme, including the ceilings on money supply and credit, devaluation of the kwacha, and price deregulation. In June 1984, however, the IMF cancelled the programme due to the inability of the Zambian government to pay arrears on its debts and meet budgetary targets.[12]

In July 1984, Zambia reached a new agreement with the IMF, a 24 month Stand-by Arrangement covering the period 1984-1986 supported by an SDR 225m line of credit. Most of the conditions in the 1983 package were retained and a foreign exchange auction was introduced in October 1985. Unlike Ghana, however, the foreign exchange auction did not operate smoothly. And in February 1986, the programme was cancelled again following Zambia's inability to meet its payments arrears.

A new 24 month Stand-by Arrangement was negotiated in February 1986 following the suspension of the July 1984 package. This was in many respects a last-ditch attempt on the part of both the Zambian government and the IMF to put together a policy package to reactivate the rapidly sagging economy. However, stiff domestic opposition, depleted foreign exchange reserves, and mounting domestic economic problems led President Kaunda in February 1987 to announce that Zambia was cancelling its agreement with the IMF and abandoning any further dealings with that institution.[13]

Trade and Exchange Policies:

The introduction of the foreign exchange auction in October 1985, was intended to establish a more realistic exchange rate for the kwacha and rationalise the allocation of foreign exchange in the country. The auction system was financed by loans from the World Bank, and from bilateral donors (the USA, Sweden, the UK and West Germany). Concurrently with the establishment of the auction, the elaborate import licensing system was dismantled.

Prior to the establishment of the auction, the allocation of foreign exchange for foreign transactions was controlled by the central bank. As in Ghana prior to the liberalization of the trade and exchange regime, an elaborate system of import controls and licenses was established in Zambia to allocate scarce foreign exchange between `essential' and `non-essential' imports, and to protect the country's import-substitution industries from foreign competition.[14]

Prior to the start of the auction, the national currency had depreciated to k2.23/US$ from k0.79/US$ in 1980.[15] By the end of 1986, the value of the currency stood at k15.25/US$. From the perspective of the Fund, by effecting a sizeable devaluation of the currency, the auction was supposed to discourage imports, encourage the use of local inputs and thereby make domestic production more efficient.[16] The reality, however, was quite different.

Contrary to Fund expectations, the auction system and the accompanying devaluations of the kwacha did not reduce the demand for imports. Instead, for reasons that are explored in section three, the result was high inflation and growing instability in the exchange rate. The operation of the auction in Zambia was suspended by the Kaunda government from January to March 1987, and eventually abolished in May 1987 by which time the kwacha had depreciated to k21/US$.[17]

In May 1987, Kaunda announced the break with IMF and the adoption of the INDP - the new economic strategy. Highlights of this strategy included the revaluation of the national currency and the establishment of a fixed exchange rate of k8/US$, a price freeze and the reintroduction of extensive price controls, increases in government spending and the reintroduction of subsidies. In addition, the extensive system of import and exchange controls was reintroduced and debt-service payments were restricted to 10% of the country's foreign exchange earnings.[18] At the time of the break with the IMF, the country's external debt stood at US$5.6b, it was more than 600m in arrears and debt service was close to 60% of export earnings.[19] Real income per capita had declined by over 40% between 1978 and 1987.

This new strategy amounted to a halt, if not a reversal, of the liberalization of the trade and exchange regime pursued under IMF tutelage. In effect, the Kaunda government was attempting to shift the burden of balance of payments adjustments onto the country's international creditors, who reacted by withdrawing their support and freezing new lending. By 1990 the economy of Zambia was in a precarious state with high inflation, an unsustainable fiscal deficit and an external debt of US$6.8b which on a per capita basis, was higher than that of Brazil.

[Section Two]

Factors Shaping Policy Choice, 1981-87.

A comparison of the factors shaping policy choice in Zambia and Ghana reveals some similarities and considerable differences. The contrast in the two cases is most readily brought to the fore by viewing policy choice in Zambia from the perspective of the same approach and variables used to analyse policy choice in Ghana: through an analysis of the channels through which, and the way in which, the impact or consequences generated by economic performance (the policy problem) affected the interests, goals and objectives of key policy makers and hence on the way in which the policy problem was defined.

I. **The Policy Problem**:

The policy problem confronting the Zambian government at the beginning of the 1980s was similar to that experienced by Ghana at the same period, namely severe economic depression and its attendant socio-political consequences. Between 1974 and 1980, for example, real GDP in Zambia declined by 52%, copper production, the country's main export, declined by 7.5% in 1981, by 1981 inflation was in double-digits, the current account had been in deficit since 1974, and external payments arrears had begun to mount.[20] In short, like the PNDC in 1982, the policy problem confronting Kaunda's UNIP was one of an acute fiscal and foreign exchange crisis, coupled with food shortages and rapidly deteriorating living standards throughout the country. This apparent similarity, however, should not mask some important differences between the two cases. These differences were greatest in terms of the consequences generated.

The roots of Zambia's economic crisis in the early 1980s can be traced to a combination of external and domestic factors. The economy of Zambia is overwhelmingly externally oriented, import-dependent, and extremely vulnerable to external shocks. This external orientation had its origins in British colonial economic policy in Zambia (formerly Northern Rhodesia) which was tailored to suit the mining interests of British companies operating in the colony. Economic developments in the colony were centred on the production and export of copper with little attempt at diversification.[21]

Another important characteristic of the Zambian economy has been the impact of the regional dominance of South Africa. British colonial policy had envisaged Northern Rhodesia as an intergral part of a wider federation with Southern Rhodesia (now Zimbabwe) and Nyasaland (now Malawi).[22] As a land-locked country, to facilitate exports of copper, a network of railways and roads were built linking the country to ports and centres in Southern Rhodesia and South Africa. As a result, the Zambian economy became vulnerable to destabilization and economic sabotage. After the Smith regime in Rhodesia made a unilateral declaration of independence (UDI) in 1965, for example, Zambia's land borders were closed with the resultant loss of export revenues. Yet, the threat to national security that stemmed from its front-line opposition to the racist regimes in Rhodesia and South Africa, as well as to the Portuguese in Angola and Mozambique, helped to foster a sense of national unity, and earned the country a considerable degree of international sympathy and support.[23]

In the early post-independence period, the Zambian economy enjoyed the highest rate of economic growth in sub-Saharan Africa. From 1964-1972, real GDP grew at an annual rate of about 8%.[24] This growth was largely due to the high world prices of copper - the country's principal export - which accounted for 90% of export receipts and about 40% of GDP. After the 1973-74 oil price increases, however, the economic fortunes of Zambia took a turn for the worse. Between 1974 and 1984, world prices of copper declined by 60% and the share of mining in GDP declined to 15%.[25]

Despite the high growth rates of the late 1960s and early

1970s, little structural change occurred in the Zambian economy. In 1965, the government embarked on an import-substitution industrialization strategy (ISI) designed to restructure the economy and reduce the dependence on copper. Some successes were achieved. Between 1965 and 1974, for example, the share of manufacturing in GDP grew from 6% to 12%.[26] By 1975, however, the shortcomings of the ISI came to the fore in the form of a foreign exchange crisis.

Under the ISI strategy, a number of industries were established to produce final consumer goods using imported raw materials and intermediate goods.[27] Through the use of high tariffs and quantitative restrictions, a protectionist trade regime was pursued that shielded domestic manufacturing by restricting the entry of final consumer goods, but allowed the importation of raw materials and machinery duty free.[28] As a result of these policies, Zambia's industrial sector became heavily dependent on imports.

As with all ISI strategies, the gamble was that industrial output and exports would generate sufficient foreign exchange to cover the import bill. And up to 1973, it appeared that this gamble would pay off. The 1974 oil-price increases and the subsequent collapse in world copper prices, however, dramatically altered the situation. In the face of declining export revenues and an increased import bill, the country began to experience balance of payments problems. Capacity utlization declined as foreign exchange shortages reduced the ability to import needed inputs.[29] Between 1975 and 1982, the external payments position progressively deteriorated.

In contrast to the priority attached to copper production and exports and to the development of local manufacturing industries, was the almost complete neglect of the agricultural sector. The share of agriculture in Zambia's GDP has remained quite low amounting to 13% in 1964 and 15% in 1985.[30] Agriculture in Zambia has been dominated by large-scale commercial farming by expatriate farmers and settiers. Peasant farming has focused mainly on the production of food crops.

Until recently, there was a distinct anti-peasant bias in the country's agricultural policies. Government policy towards agriculture favoured commercial farming over peasant farming.[31] The drive towards industrialization, plus the higher incomes in the mining sector and the large public sector made agricultural employment comparatively unattractive. In addition, government policy, for political reasons to be discussed below, focused on subsidizing urban dwellers by deliberately keeping the price of food low.[32] The disincentives created contributed to the food crisis of the early 1980s that was exacerbated by drought.

Another important effect of the government's policies towards agriculture was to dramatically widen the rural-urban gap. It is estimated that the rural-urban terms of trade fell by as much as 65% from 1965-1980.[33] As result, the rate of urbanization increased dramatically after independence and by

1986, 48% of the country's population lived in urban centres, the highest rate of urbanization in sub-Saharan Africa. A major political consequence was the growth in the urban-based industrial labour force and of a strong labour movement which became a major source of opposition to Kaunda's adjustment efforts in the 1980s.

II. <u>Consequences of the Policy Problem</u>:

Two sets of consequences generated by the policy problem described above can be identified. These are 1) external structures (changes in the relationship between the actor and dominant external actors); 2) domestic structures (changes in the state's institutional relations and in the relationship between state and society). These constraints had a significant impact on the way in which the Kaunda government defined the policy problem.

1) <u>External Constraints</u>.

As with Ghana, the most significant external developments that had an impact on economic policy making in Zambia in the early 1980s were the triad of:

a) the international recession precipitated by the second round of oil price increases in 1979 and US government policies which led to a collapse in the export markets for primary commodities;

b) the debt crisis, beginning in the early 1980s, which led to a dramatic rise in interest rates and a freeze in new lending; and

c) the institutionalization of the neoorthodoxy towards the economic management of the problems of LDCs in the international donor community, which elevated the Fund and the Bank to levels of prominence they had not enjoyed since their inception.

Unlike Ghana, however, there was an important regional dimension - the liberation conflicts in the southern African region - that also had a significant influence on economic policy. This is examined in greater detail below.

The impact of the international recession on Zambia was far more dramatic and immediate than it was for Ghana. The reasons for this included the fact that Zambia had a much heavier external debt load which, in contrast to Ghana, was a major factor in the country's external payments position. Until the mid-1980s, Zambia received much higher external aid flows than Ghana - $52.3 net ODA per capita from all sources for Zambia, compared with $17 for Ghana in 1980. And unlike Ghana, which had experienced a virtual freeze on new lending between 1978 and 1982, Zambia continued to be an attractive venue for foreign aid and investment.[34]

In 1980, Zambia's total external debt stood at US$3.2b (84% of GDP) of which $1.3b was owed to private sources.[35] Compared with Ghana's total external debt of $1.3b in 1980 (28% of GDP), a figure which actually declined by 1982. Zambia's debt-service ratio in 1982 stood at 47.6% compared with 6.6% for Ghana. In addition, unlike Ghana, a significant proportion of Zambia's debt was composed of non-concessional debt - $1.3b (33% of total external debt) in 1982, compared with $185 million (13% of total external debt) for Ghana in 1982.[36]

The major reasons for Zambia's external debt load can be traced to the adverse movements in the terms of trade after 1973, which reduced the ability of the government to service its debts. In addition, the ability of the country to respond to the more severe external shocks that came in the 1979-82 period, was weakened by the high import dependence of its productive sectors, a product of the colonial legacy and the ISI strategy pursued by Kaunda's UNIP since 1965.

In response to the foreign exchange crisis created by the first-round of oil-price increases in 1973-74 the government chose to finance its payments deficits by borrowing in the international capital markets and from multilateral sources such as the IMF, in the hope that a recovery in world copper prices would generate enough foreign exchange to cover the debts.[37] Balance of payments problems intensified, however, when world copper prices failed to recover.

Another significant external factor that shaped economic policy making in Zambia during this period was the impact of the liberation war in Rhodesia (Zimbabwe) and the other regional conflicts in southern Africa. Zambia gave active political and military support to the freedom fighters in the conflict against Ian Smith's illegal regime in Rhodesia, to the ANC in South Africa, the South West Africa Peoples' Organization (SWAPO) in Namibia, and to the liberation movements in Angola and

Mozambique. In the process of doing so, Zambia incurred the costs of its vulneralibilty to economic and military destabilization launched from its neighbours to south - the disruption of its transport and communications links to the outside world.[38]

2) Domestic Constraints.

The post-independence political landscape in Zambia has been dominated by Kaunda and the UNIP. The country has, in comparison with other African countries, enjoyed a degree of political stability. The model of governance that has dominated the political landscape has been ultra-statist. In Zambia, even more so than in Ghana, the state and the politics of distribution came to occupy a central role in the logic of political and economic structures and relations.

The roots of the statist-distributionist model in Zambia can be traced to the immediate post-colonial era, and the processes were similar to that which occurred in Ghana under Nkrumah in the early 1960s, namely, expansion of the bureaucratic-administrative organs of the state, the creation of an executive presidency, and then the creation of a one-party state.[39] In Zambia, as with Ghana, society was characterized by strong cleavages occurring around class, ethnic and regional lines.[40] However, the regional tensions within Zambia were much stonger than in Ghana and had a major role in shaping the country's post-colonial political processes.

Briefly, the sources of regionalism within Zambia can be traced to the divisions that arose during the anti-colonial struggle. Until 1953, the anti-colonial struggle in Zambia was led by mineworkers in the country's copperbelt. In 1951, the Northern Rhodesia African National Congress (NR-ANC) was created from the Federation of Welfare Societies that had been established by mineworkers to pursue their collective interests.[41] The major political concerns of the NR-ANC during this period was opposition to the federation with Southern Rhodesia. After the failure to stop the federation, the NR-ANC began to decline but was revived under the leadership of youger more radical leaders such as Kenneth Kaunda, who became Secretary General of the NR-ANC in 1953.

In 1958, the NR-ANC split into two separate organizations over the issue of whether to participate in the Legislative Assembly of the Federation of Northern and Southern Rhodesia. On one side was Kaunda and his supporters who were committed to breaking the Federation and creating an independent state. On the other side was the NR-ANC president Nkumbula, who was in favour of Federation. In 1958 Kaunda formed the Zambia African National Congress (ZANC) which was renamed United National Independence Party (UNIP) in 1959.[42]

Thus on the eve of independence in 1962-64, the nationalist front in Zambia was divided into two parties that closely followed regional and ethnic lines. The NR-ANC had its basis of support in Nkumbula's home region, the Southern Province. Although the UNIP enjoyed wider support, it was dominated by

Kaunda's ethnic group, the Bemba. The third Party was the white settler's party. In the 1962 elections, the UNIP won the majority of seats and in 1963, Northern Rhodesia seceded from the federation. In the countdown to independence in 1964, open fighting broke out between UNIP and NR-ANC supporters culminating in a mini civil war in 1964.[43]

Thus, like Nkrumah in 1960, one of the first priorities of Kaunda after Zambia achieved political independence in 1964, was to consolidate power in the state. While Nkrumah used control over, and rents from, the cocoa industry in Ghana, Kaunda and the UNIP used access to, and rents from, the copper industry to consolidate its control.[44] This was achieved through the expansion of the orbit of the state and the creation of elaborate state-sponsored patronage networks.

At independence in 1964, there were fourteen state-owned enterprises created by the British, including agricultural marketing boards and statutory corporations in the railway and airline industries. By 1985, the number of parastatals had increased to 147.[45] Of this number, 121 came under the umbrella of the Zambia Industrial Mining Corporation (ZIMCO), a semi-autonomous body, with the remainder under direct ministerial control.[46] By 1980, the parastatal sector in Zambia accounted for about one-third of GDP.

The growth in the parastatal sector reflected the overall growth in the public sector in the post-independence period. After independence, the Kaunda government embarked on a vigorous indigenization programme, expanded its role in the economy, and in 1968-69, major nationalizations in all key sectors of the economy began. The mining sector, which had been under the control of multinational corporations such as Anglo-American, was brought under state control and by the early 1980s 80% of the mining sector was state-owned. The result of these nationalizations was a state presence and dominance in the economy that was large even by continental standards.

As with Ghana, the results of the greatly expanded presence of the state was to reinforce a model of governance that placed the public sector at the hub of social mobility and access to resources and rewards, while limiting this access; and also to elevate bureaucratic structures to a central place in the allocation and distribution of resources. Unlike Ghana, however, the expansion in the state did not result in the consolidation of a bureaucratic-technocratic stratum.

In contrast to Ghana where the conflict within the state, between politicians and technocrats, has been a major influence on economic policy formulation, the influence of the technocratic wing of the state over policy in Zambia has been minimal.[47] In Zambia, the party and the president maintained a firm control over the bureaucracy. Kaunda frequently resorted to the rotation and replacement of senior state managers to prevent the development of alternative power centres that might present opposition to his policies. While this increased the control of the regime over the administrative wing of the state, it also had the effect of weakening administrative capacity, and eroding the institutional autonomy of the state.[48]

The more important source of policy formulation in Zambia, therefore, has been the state-societal dimension. The reasons for this include: a) the strength of regional and urban-based social forces particularly in the south and in the copperbelt; b) the large industrial labour force and the concentration of power in the mineworkers unions in the copperbelt, the Zambia Congress of Trade Unions (ZCTU) and the Mineworker's Union of Zambia (MUZ); and c) the deliberate actions of the Kaunda government, which undermined the technocrats, weakened the administrative capacities of the state and eroded its insulation from societal pressures.

As a result of the above factors, economic policy making in Zambia has been particularly sensitive to the interests of urban middle and working classes.[49] These groups have been characterized by a high degree of political activation and on numerous occassions, have engaged in collective action to pursue their interests. And these interests have often been in conflict with those of the government and with other influential groups.

For example, the mineworkers unions, the ZCTU and the MUZ, have had frequent clashes with the UNIP over various economic policy measures and have resisted Kaunda's attempts to curb their powers.[50] On the other side are the urban-based middle classes, the middle and top managers in the industrial sector and the large parastatal sector, which have frequently come into conflict with both the labour unions and the government. All of these groups have benefitted from a greatly expanded state presence in the economy.[51]

During Zambia's First Republic, 1965-73, when the economy was in a boom, the UNIP attempted to consolidate its control over the state and society by incorporating various social groupings into the orbit of the state. This process of political coalition building was similar to the process that occurred in Ghana, namely, through budgetary and fiscal expansionism and a protectionist trade regime. Politics during this period was characterized by intense competition among national politicians jockeying for power and influence. Highly selective channels of representation were established, linking local and regional constituences with the centre, through for example, the creation of rural councils, and ward development committees.[52]

Between 1973 and 1981, the politics of distribution continued in Zambia, despite the economic downturn. In the 1964-72 period, with the expansion in national output, which meant that the size of the national pie was increasing (although at a diminishing rate), the state had the resources to underwrite and sponsor patronage links. After 1973, with the decline in the Zambian economy, the ability of the state to use its resources to distribute economic rewards and purchase political support was reduced. Unlike Ghana, however, where the reduction in the discretionary spending ability of the state resulted in societal disengagement and a withdrawal from the formal economy, in

Zambia, for reasons discussed below, the pressures on the state increased, and the politics of distribution continued unabated. This had a major effect of the implementation of Kaunda's adjustment efforts.

There are two major reasons for the continued salience of the politics of distribution in Zambia even in the face of economic deterioration. First, unlike Ghana, where the economic decline was accompanied, if not precipitated, by frequent regime changes and political instability, which meant changes in the patronage networks and progressively, a shrinkage in their coverage, in Zambia, the fact that the same regime had been in power on a continous basis since 1964, entrenched and institutionalized many of the networks.

Kaunda's regime was authoritarian, but not repressive; dominant, but extremely vulnerable to societal pressures, particularly to those constituents in the urban centres. Its survivability thus hinged on its ability to appease these constituents. National politics has been shaped by a combination of a strong single party, charismatic leadership and bureaucratic expansion firmly under the control of the president.[53]

The UNIP has played the role of an ideological mobilizing party, which in practice meant incorporating as many social constituents as possible into the party. Thus party membership or affiliation virtually became a precondition for access to resources and rewards. While this may have been an effective way to ensure political control and dominance, it also held the party and the President virtual hostage to the demands of these constituents.[54]

The second reason is to be found in the goals of the Kaunda regime itself and in its ideology of `Humanism', which are discussed in some detail below.

III. The Definition of the Policy Problem:

The definition of the policy problem by Kaunda and his government differed in important ways from the way Rawlings and the PNDC defined the policy problem in Ghana. From the perspective of Zambian policy makers, the payments problems and the overall economic decline the country began to experience after 1973, were a result of cyclical fluctuations in world copper prices.[55] The Zambian assessment of the foreign exchange crisis that emerged after 1973, was that it was temporary, and caused by exogenous factors only.[56] The definition of the policy problem, therefore, did not include a recognition of the structurally-rooted sources of the country's foreign exchange crisis nor the need for any major adjustments. As late as 1984-85, Kaunda and other key policy makers were still convinced of the temporary, cyclical nature of the crisis.[57]

The reasons why the Kaunda government defined the policy problem in this way was a function of the constraints generated by the domestic and external factors described above, as well as the goals and ideology of the regime. Kaunda's ideology of

Humanism can be described as a socialist vision of society tinged with religious and moral overtones. As a politico-economic philosophy, its basic objective was the eradication of poverty and the provision of basic needs for all Zambians.[58] It championed statism and centrism, it was in favour of a centrally-planned economy, and had a strong ethos of welfarism and distributionism.

Another important aspect of Kaunda's Humanism, was its opposition to the racial injustices in the southern African region.[59] This led, from the perspective of his critics, to a preoccupation with external affairs, to the detriment of domestic affairs.[60] The extent to which regional conflicts have shaped politics in Zambia, cannot be underestimated.

Between 1965, when Rhodesia unilaterally declared independence, and 1981, there was not a single year in which the country was not affected, politically and economically, by a succession of crises. These have included economic sabotage, disruption of rail and telecommunications, refugees fleeing civil wars in Angola and Mozambique, and the effects of international economic sanctions on South Africa and Rhodesia.[61] In addition, there was the added threat from pockets of opposition located in the southern parts of the country, that were reported to have been armed by South Africa. Although it is difficult to put a dollar figure on these costs, a report by the U.N. estimated that by 1978, Zambia had incurred losses exceeding $800m. Zambian estimates put the figure much higher.[62]

As Anglin and Shaw (1979) note, this regional dimension has had a significant impact in shaping Zambians' perceptions of themselves and their world role.[63] Indeed, one of the important sources of Zambian opposition to IMF adjustment in the 1980s was the widely-held view among Zambian policy makers, and ordinary people, that IMF prescriptions were seriously eroding the country's ability to carry out this role.[64]

In Zambia, domesic constraints on policy choice did not predispose the Kaunda government towards a ready acceptance of the Fund-Bank prescriptions. As noted above, as a result of the economic crisis, there were very strong pressures on the Kaunda government. But these pressures amounted to demands from the most influential groups, the labour unions and the middle classes, for a continuation of the kinds of policies that had been pursued since independence and that had been beneficial to them. Within the party itself, the ideology of Humanism was so entrenched that any policies that entailed an erosion of any of its key tenets, represented a threat to the continued existence of the party itself.[65]

Furthermore, in contrast to Ghana, there were no deep divisions within the UNIP government over ideology and policy direction. Unlike Ghana, the balance of power within the state did not shift towards the technocrats, who instead remained weak and subject to political control. With Rawlings, his lack of a firm or coherent set of ideological beliefs made it easier to accept alternative formulas that appeared consistent with his vaguely defined goal of transforming Ghana's political-economy. Kaunda's long time commitment to his brand of socialism, and the extent to which this ideology had shaped Zambian political discourse and the aspirations of its people, made it difficult to accept the Fund-Bank diagnosis and prescriptions.[66]

In Zambia, unlike Ghana, the perception of a hostile external environment was pervasive, and this had a significant role in shaping the way the Kaunda government defined the policy problem in the early 1980s in the following ways. First, although both countries experienced an acute foreign exchange constraint, the proximate causes were quite different. For Zambia, its external debt load was a significant factor in its balance of payments problems. External debt was not a significant factor in Ghana's payments difficulties. Second, the economies of both countries shared similar structural weaknesses: commodity concentration, domestic production dependent on imports, and the vulnerability created by the fact that domestic productive sectors could only respond to the growth in domestic demand via foreign trade thus limiting the the capacity to earn foreign exchange. Although both countries experienced declines in export revenues which contributed to their foreign exchange crises, the causes of the decline, or rather the perceptions of the causes of the decline, were not the same for the two countries.

In Zambia, the decline in export revenues could clearly be linked to the collapse in world copper prices after 1973, and especially after 1979. Export revenues in Zambia declined although domestic production of copper increased. This was not the case in Ghana.[67] In Ghana, the decline in export revenues intensified at a time when the world price of the country's principal export - cocoa - was increasing (1974-1977). Thus unlike Zambia, the collapse in commodity prices after 1979, although a major factor, was not the primary cause of Ghana's balance of payments difficulties. The primary cause was the drop in domestic production and exports of cocoa, for reasons that were elaborated in chapter three.

In Zambia, the decline in its economy could more clearly be linked by policy makers to an unfavourable external environment, both internationally and regionally. This was not the case in Ghana, where the decline in domestic production in all key export sectors (cocoa, gold, timber, etc), began before the collapse in commodity prices, and where the absence of any external or regional conflict, helped to convince policy makers in the PNDC of the possible domestic sources of the problem.

In Ghana, therefore, domestic factors were more instrumental in the decision to redirect policy and accept the conditions of the Fund-Bank programme. A learning process occurred in which policy makers in Ghana came to recognize the necessity of some form of adjustment in economic policy and willingly (albeit hesitantly and with misgivings) approached the Fund and the Bank for assistance.

In Zambia, the definition of the policy problem was not accompanied by learning. The Kaunda government did not recognize the need for any significant adjustments in the country's economy at least not until 1985, when the first serious attempts were made to undertake structural reforms.[68] And even then, it is doubtful that Kaunda was convinced. On a national broadcast on May 1 1987, to announce the break with the IMF, Kaunda was still attributing the decline in Zambia's economy to the oil price increases of the 1970s and the decline in copper revenues.[69]

In the case of Zambia, the decision to accept the conditions of the Fund programmes from 1981 to 1984, therefore, was more a case of unwilling compliance, an adaptive change, in which policy makers were simply adjusting policy to a changed environment. There is no evidence that the definition of the policy problem in Zambia was accompanied or preceded by a reevaluation of goals, beliefs/ideology, or in the perception and understanding of policymakers of the roots and nature of the policy problem.

[Section Three]

The Political Economy of Implementation.

The implementation record of Zambia's adjustment efforts between 1981 and 1987, presents quite a contrast with the PNDC's implementation record. In Zambia, the record reveals a chequered pattern of false-starts, hesitant and half-hearted attempts at implementing instruments, inability to achieve targets and adhere to conditions, and ultimately, cancellations. The reasons for this are to be found in a combination of leadership and structural factors (domestic and external) and from flaws in the design of the adjustment formula itself.

The analysis of the political economy of the implementation of Zambia's adjustment efforts begins by briefly contrasting the key factors that shaped policy implementation in Zambia and Ghana and then proceeds to provide specific examples of how these factors interacted in the management of costs and risks by Kaunda's UNIP between 1981 and 1987.

Factors Affecting Implementation.

Four broad factors were identified as central to the implementation of the PNDC's ERP: the high degree of autonomy of the regime largely as a result of the weakening and disengagement of social forces; the lack of institutionalization of the PNDC and its control over the other branches of the state; learning on the part of the PNDC manifest in a high degree of commitment and in aspects of its statecraft; and the development of a strong constituency in the country's favour among international donors. None of these conditions were present in Zambia.

Domestic Structures: The Kaunda government lacked any significant degree of autonomy from powerful social forces. In Ghana, the reduction in the discretionary spending ability of the state in the face of the sharp economic downturn between 1976 and 1982, was accompanied by a disengagement of groups that had come to rely on the state budget, and a weakening of their ability to influence the policy directions of the state. In Zambia, however, no such societal disengagement occurred. On the contrary, the reduction in the size of the national pie after 1973, both absolutely and relatively, had the opposite effect of increasing societal demands on the state. Furthermore, whereas in Ghana, societal disengagement also took the form of a withdrawal from the formal into the informal economy, thus providing alternative means of social exchange and reproduction, the informal economy in Zambia remained small.[70]

As far as relations within the state are concerned, whereas in Ghana economic policy formulation under the PNDC was dominated by technocratic logic, in Zambia, political logic was more dominant.[71] In addition, as will be shown below, the thin technocratic stream was constantly exposed to political pressures.

<u>External Structures</u>: Zambia's role as a front-line state and the international stature of its president, Kaunda, earned the country a considerable degree of international sympathy and support, and was a major factor in the relatively generous external aid flows the country received during the 1970s and early 1980s. Unlike Ghana, which faced the hostility of the international donor community when it began its reform programme and had to win their confidence through its track record, eventually leading to the development of a strong constituency in its favour by 1987, in Zambia it was the reverse.

When Zambia began its reform programme it had a strong constituency among donors, which was gradually eroded by 1987. This to a large extent explains why Zambia continued to attract IMF and other donor assistance in the early 1980s, despite the repeated cancellations. This initial `availability' of external finance may have weakened the commitment of the Kaunda government to adjustment.[72]

Leadership Factors: In contrast to the PNDC, the Kaunda government's commitment to adjustment was weak. And this can be traced to the way in which the policy problem was defined. The perception held by Kaunda and other influential figures in the regime of the causes of Zambia's economc crisis as rooted in external factors only, had a major influence on the sustainability of its reform efforts.

If, as noted in the case of Ghana, the sustainability of adjustment starts at the stage where the decision is made to adjust and in the negotiations for the design of the adjustment formula, then the fact that the Kaunda government did not initially recognize nor accept the need for any fundamental structural reforms, weakened its commitment to the adjustment process and its statecraft in managing costs and risks.

In summary, in Ghana, at the commencement of the ERP in 1983, there was a weak state, but a strong and highly insulated authoritarian-administrative regime strongly committed to adjustment; fragmented social forces and a high degree of societal disengagement from the orbit of the state and the formal economy. Policy making was dominated by the technocratic wing of the state, which was highly insulated from political pressures.

In Zambia, on the other hand, in 1981, there was a weak state and a weak regime with some authoritarian tendencies, sensitive to the demands of social constituents with very little commitment to adjustment; strong social forces and little societal disengagement from the state. Technocrats within the state remained weak and policy making was dominated by the political wing of the state.

__The Management of Political Costs and Risks__.

In its efforts to implement its economic reforms the UNIP encountered considerable political challenges. As with the PNDC, costs and risks arose from: domestic political opposition, from institutional weaknesses within the state, from market weaknesses; from inconsistencies and flaws in the adjustment formula, and from an unfavourable external environment. The implementation problems created by these political challenges can be illustrated by using three examples drawn from: i) the withdrawal of state subsidies, ii) the operation of the foreign exchange auction, and iii) the management of external debt. The political and social costs stemming from policy reform in these three areas were the major reasons for the collapse of Zambia's adjustment efforts.

I. **The Withdrawal of State Subsidies.**

One of the first casualties of the adjustment programme in Zambia was the elaborate system of state subsidies, in particular the subsidies on food staples, which had been used since independence to keep the prices of basic food stuffs at affordable prices. In addition to this redistributive goal, there were other more political objectives underlying the use of subsidies, namely, the government's sensitivity to the effects of food price increases on the large urban populations. Twice in the 1970s, negative urban reactions to food price increases had forced the government to retreat.[73]

State subsidies, plus the control over agricultural marketing boards, were thus a major aspect of the government's strategy for building and maintaining domestic political support and of achieving redistributive goals. Such broader political and social objectives, however, had no place under the strict economic rationality of the IMF austerity programme. Under the terms of the 1983 Stand-by, strict austerity measures were introduced by the government including a 5% ceiling on wages, and the gradual elimination of subsidies to reduce government expenditure. In addition, the Price Control Act under which prices were kept artificially low, was revoked.[74]

Unfortunately, as in the case of Ghana, neoorthodox adjustment failed to take the broader political and social context into consideration in its insistence on price-reform. As Plethcher (1986) notes, the insistence that the Kaunda government `get prices right', amounted to the creation of a new political order in Zambia without any consideration of its feasibility or of the costs.[75] When these costs emerged, they proved to be the undoing of the entire adjustment effort.

Following the announcement of the 1983 budget, the Kaunda government moved to forestall a recurrence of the riots that had accompanied the austerity budget of 1981, and the government's intervention in industrial relations.[76] In 1981, mineworkers in the copperbelt led a series of strikes against the government to which Kaunda responded by arresting three prominent labour leaders. In 1983, facing the prospect of another strike, Kaunda responded by doubling the wage ceiling from 5% to 10%, appointing two of the labour leaders arrested for their role in the 1981 strikes to the board of the Zambia Industrial Mining Corporation (ZIMCO) and offering directorships in subsidiaries of ZIMCO to other influential labour leaders.[77] These actions temporarily muted some of the opposition to the government.

More serious opposition emerged in 1986, after the commencement of the Structural Adjustment phase of the reform programme, in reaction to the withdrawal of subsidies on maize meal. In September 1986, Zambia agreed to remove maize subsidies over a two year period. In November 1986, the government announced that consumer prices were to increase by 57% from k35/90kg bag to k55/90kg.[78] By December 1986, the actual retail prices were k77/bag, a much larger increase. The reaction was the worst outbreak of violence in Zambia's 24 year post-independence history.

Rioting was most extensive in the copperbelt. Government figures put the toll at 15 dead and 150 seriously injured. The riots were followed by strikes by public sector workers, teachers and nurses. The Kaunda government panicked in response to the riots, declaring a state of emergency and arresting and detaining people without trial.[79] The riots eventually forced the government to rescind the increase in the retail price of maize meal, reduce interest rates and suspend the operation of the foreign exchange auction for two months. Although it was the riots that precipitated the break with the IMF in May 1987, the social and political costs of the auction was the other significant factor.

II. The Foreign Exchange Auction.

The foreign exchange auction in Zambia did achieve the objective of effecting a devaluation of the currency, but it did so in ways that proved to be socially and politically costly. There were several reasons for the failure of the foreign exhange auction in Zambia. These included the flawed assumptions underlying the auction and the sequencing and mix of policy instruments which generated strong inflationary pressures and almost led to the collapse of the currency; inadequate financing; and a lack of government commitment which undermined confidence in the auction.

Given the high import dependence of Zambia's productive sectors and the absence of domestic substitutes for imports, relative price changes by way of devaluations, did not produce a switch to local inputs. Instead, the effect of the auction was to increase the value of imports, and thus the cost of many consumer goods and essential imports such as medical supplies and fuel, and increase the costs of production.

The inflationary pressures of the devaluation were fanned by the government's inability to control the fiscal deficit and the growth in money supply.[80] This occurred despite the ceilings imposed on credit and a steep rise in interest rates in 1985. In addition, in the early phases of the auction, a substantial portion of available foreign exchange (one-quarter) was acquired by importers of luxury goods to the detriment of essential imports and basic foods.[81]

At its establishment in 1986, the auction received donor pledges totalling US$315m. In the first seven months of its operation, however, the auction received less than half of this pledged amount. The resultant shortages of foreign exchange available for sale contributed significantly to the precipitous drop in the value of the kwacha.[82] Thus underfinancing was a significant contributory factor to the failure of the auction.

In addition, confidence in the auction was eroded by political actions of the part of Kaunda. In an effort to contain the political fall-out, Kaunda replaced the Finance Minister, Luke Mwananshiku and two other technocrats, who had been in favour of the auction, with three vocal critics of the IMF programme.[83] This move further eroded the government's commitment to the auction system.

There were important differences in the operation of the auction in Zambia and Ghana that had important effects on the sustainability of the reform package. First, in Ghana, the initial auction was `managed' and operated under a two-window system, with rates in the first window fixed and rates in the other determined my market forces. By establishing a fixed (and lower) rate for governmental transactions and essential imports, the PNDC was able to channel resources into priority sectors (e.g., agriculture). This was not the case in Zambia, where the two-window system was not introduced until March 1987, almost two years after the establishment of the auction.

Second, in Ghana, the phasing, sequence and mix of liberalization measures was quite different from Zambia. As noted in chapter four, the sequence of trade and exchange liberalization in Ghana involved: first, discrete devaluations (1983-1986), then the introduction of the auction (1986), then the gradual elimination of import controls (1987-89), followed by the lifting of restrictions on external payments and transactions (1989).[84] In Zambia, however, import controls and other quantitative restrictions were abolished concurrently with the establishment of the auction.

Thus, in the context of the overall reform programme, and given the structural rigidities in the Zambian economy, the auction system suffered from "too much change too quickly".[85]

The fate of the auction and of the overall adjustment effort was sealed by an unfavourable external environment, particularly, the country's crippling external debt.

III. External Debt.

By 1987, Zambia's external debt had reached an unsustainable level. Gross external debt stood at US$ 5.7b, which was four times the country's GDP. Debt-service in 1987 amounted to 95% of export earnings. If accumulated arrears on payments is included, the debt-service ratio was closer to 150%.[86] The reasons for this crippling debt load can be traced to a combination of factors including the steep devaluation of the national currency as a result of the auction, the continued decline in world copper prices, declines in the output of all sectors, and perhaps most importantly, the size of the debt mountain itself, and the arrears on interest payments that became due by 1987.

In terms of composition, debt owed to multilateral sources, accounted for one-third of total outstanding debt in 1987. Excluding the IMF, obigations to mutilateral sources accounted for 17% of outstanding debt. At the end of 1986, debt owed to the IMF totalled $856m (15%). In 1986 alone, net payments to the Fund totalled $100m.[87] The largest share of Zambia's debt was owed to bilateral creditors (40%).

As Zambia's external debt increased, the amount of financing it received to support the adjustment efforts decreased. Total medium and long-term loans and grants to Zambia decreased from approximately $600m/year between 1980-82 to an average of $300m in 1984-85.[88] In 1987 it was estimated that the country would require a minimum of $450m/year in addition to more generous Paris Club reshedulings and debt relief. This amount of financing, however, did not materialize.

Although Zambia had received debt reschedulings under the auspicies of the Paris Club in 1983, 1984 and February 1987, debt-relief was not offered. And donor pledges at the Consultative Group meetings in May 1984, 1985 and 1986 were considerably less than was needed, largely as a result of Zambia's disappointing implementation record. Although it cannot be confirmed, it is possible that Ghana might have benefitted from Zambia's misfortunes. It appears to be more than mere coincidence that donor commitments to Ghana increased at around the same time that donor commitments to Zambia decreased (1986-87).[89]

In January 1987, the governor of the Bank of Zambia announced the indefinite postponement of the repayment of arrears on all debt. The IMF and the Bank, whose loans cannot be rescheduled, reacted by declaring Zambia ineligible to use their resources. In May 1987, after a crisis meeting of his cabinet Kaunda announced the break with the IMF, and the imposition of a 10% ceiling on debt-service payments.

Table 8
Zambia and Ghana: Selected Economic Indicators, 1980-87

	1980	1981	1982	1983	1984	1985	1986	1987
GDP Growth(a)								
Zambia	3.0	6.1	-2.7	-2.0	-0.5	1.4	0.4	-0.2
Ghana	0.6	-2.9	-6.5	-4.5	8.7	4.5	5.0	4.4
Inflation(b)								
Zambia	11.7	14.0	12.5	19.6	20.0	37.4	51.6	--
Ghana	50.1	116.5	22.3	122.9	39.7	10.3	24.6	--
Exchange Rate(c)								
Zambia	100.0	102.0	114.0	106.0	91.0	84.0	40.0	43.0
Ghana	100.0	222.0	278.0	187.0	72.0	52.0	30.0	23.0
Debt/GNP (d)								
Zambia	90.5	92.9	101.9	120.3	151.5	195.2	389.6	334.4
Ghana	29.6	34.7	34.7	39.8	43.7	49.1	47.5	63.3

a) Real GDP growth at 1980 local currency; b) CPI percentage change over previous year; c) real effective exchange rate 1980 = 100; d) total external debt as % of GDP.
Sources: IMF, *International Financial Statistics* 1987; World Bank, *World Debt Tables*, 1987; World Bank-UNDP, *African Economic and Financial Data*, 1989.

[Section Three]

Conclusion.

The analysis of the political economy of policy choice and implementation of Zambia's adjustment efforts presented in this chapter presents quite a contrast with that of Ghana under the PNDC in two broad areas.

First, with respect to policy choice, policy makers in

Ghana and Zambia faced similar policy problems in terms of an economic crisis, and the policy responses of both governments essentially conformed with the broad neoorthodoxy (although important differences existed in regard to the phasing, sequencing and mix of specific policy instruments). Although the policy problems and policy choices of the two goverments were similar, there were significant differences in the preconditions for choice: the domestic and external consequences generated by the policy problem and their impact on the goals and interests of the regime.

In Zambia, the external consequences had the greater impact in shaping the way Kaunda defined the policy problem. Problems of debt, declining world copper prices, and destabilization and economic sabotage launched from its neighbours to the south, all contributed the perception that the crisis was externally induced. As a result, in the case of Zambia, the decision to undertake adjustment was not based on a recognition of the necessity of any significant domestic adjustment to the economic crisis. There is no evidence of a learning process - problem redefinition, goal change and belief system change - in the decision to undertake adjustment.

In Ghana, on the other hand, the domestic consequences of the economic crisis had the greater impact in shaping the way policy makers defined the policy problem. The decision to adjust was based in large part on a recognition of the necessity of some fundamental domestic adjustment. There is evidence of a learning process involved in the decision by the PNDC to accept the Fund-Bank adjustment programme. This finding lends support to the hypothesis advanced in chapter two, that postulated an association between the relative weighting of external and domesic factors in policy choice and the occurrence or non-occurrence of learning.[90]

With respect to policy implementation, the speed and rigour with which the PNDC implemented instruments and conditions, its ability to achieve programme targets, and to sustain the overall adjustment effort, also presents quite a contrast with Zambia's chequered record of failed implementation schedules, inability to achieve programme targets, and cancellations. The explanation of these divergent outcomes lies in the presence or absence of certain key conditions identified as necessary for sustainability.

In chapter four, the following factors were identified as having contributed to the sustainability of the PNDCs adjustment efforts:

1) Learning on the part of key figures in the regime manifest in the development of a strong commitment to the adjustment programme and in aspects of statecraft; and institutional learning manifest in changes in rules, procedures and structures for implementing policy.

2) The PNDC's control over the other branches of the state apparatus and its high degree of autonomy and insulation from the broad spectrum of societal demands as a result of its refusal to institutionalize its support base.

3) The fragmentation of social forces, their disengagement from the state and withdrawal from the formal economy.

4) The highly competent technocratic team (which formed the domestic half of the transnational coalition with technocrats in

the Fund and the Bank) who enjoyed the confidence of the PNDC.
5) Strong donor support resulting in reasonably adequate finance.

Most of these conditions were not present in the case of Zambia and their absence explains the inability of the Kaunda government to sustain its adjustment efforts. Specifically, the absence of any significant learning on the part of key policy makers considerably weakened the government's commitment to the programme and its ability to manage costs and risks. The Kaunda regime lacked any significant degree of autonomy from social forces and it was highly institutionalized in its support bases. Although the government was able to exercise control over the other branches of the state, it did not have any confidence in the technocrats, who remained weak and uninfluential. Thus in Zambia, the transnational coalition which could have formed the intellectual, policy and financial backbone of the programme, did not emerge. Furthermore, donor support, although initially strong, tapered-off in response to the country's inability to implement reform measures. As a result, the financing-gap was pronounced.

These findings lend some support to the hypotheses advanced in chapter two on the sustainability of adjustment. The hypotheses established an association between the degree of regime autonomy and the capacity to adjust; the way the policy problem is defined and the level of commitment; and the role of learning in managing costs and risks.[91] Although the evidence from the two cases is supportive, it is not conclusive for the following reasons.

First, in contrast to Ghana, Zambia's adjustment efforts did not go much beyond Stabilization. During the period under consideration, Zambia did not make use of any of the facilities explicitly designed for Structural Adjustment that existed at the time - the IMF's SAF and the Bank's SAL. In Ghana, there was much greater attention paid to structural and growth-oriented issues than in Zambia's programme.

As a result of this, the validity of some of the observations made with respect to the Structural Adjustment phase of the PNDC's ERP, cannot really be confirmed. However, what the Zambian case does appear to confirm, is that well-institutionalized support bases for a regime are not conducive to Stabilization. Strong authoritarian measures appear to be required to see through Stabilization, given its emphasis on short-term crisis-management, top-down administration of reform measures, and the political and social costs engendered by its austerity.

If indeed there is a link between Structural Adjustment and democratization, as the evidence from the case of Ghana shows, then the case of Zambia is all the more unfortunate. Although the Zambian economy suffered from similar market weaknesses as Ghana, Kaunda's UNIP might have had a better record implementing Structural Adjustment than it did with Stabilization. Having already established a modus-vivendi with the population, it might have found it easier to elicit supply responses than the PNDC did. Unfortunately, a country that might have been a good candidate for Structural Adjustment was discouraged from doing so by the costs of Stabilization. This observation raises intriguing questions regarding the tradeoffs between Stabilization and Structural Adjustment and the phasing and sequencing of reform measures. This issue is taken up in the concluding chapter.

Thus, the evidence presented in this chapter does lend some support to the theoretical and empirical observations made with respect to the PNDC. Two questions remain to be dealt with. Is the experience of the PNDC generalizable? And what lessons can be drawn on the politics of economic policy reform? These issues are addressed in the next and final chapter.

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CHAPTER SEVEN

CONCLUSIONS: LESSONS ON THE POLITICS OF ECONOMIC POLICY REFORM.

Introduction.

This study has presented a comprehensive analysis of the political economy of policy choice and implementation in Ghana under the PNDC. Part one of the study (chapters one and two) presented a review of the literature relevant to the research problem and specified the analytic framework employed in the study.

Part two, comprising chapters three, four, and five, presented a comprehensive examination of the political economy of foreign economic policy making and implementation in Ghana. Chapter three set the stage for the analysis of the PNDC's policies by tracing the historical factors that have shaped economic policy making in Ghana from 1957-1981.

Chapter four examined the factors shaping policy choice in Ghana under the PNDC, focusing in particular on the reasons behind the decision by the PNDC to redirect policy and accept an IMF and World Bank supported adjustment Programme. In chapter five, the focus was on the factors that contributed to the sustainability of the PNDC's adjustment efforts. And in chapter six, the PNDC's adjustment efforts were compared with those of Zambia, as a case of unsustained adjustment.

Based upon the analyses in these chapters, a core set of theoretical and empirical observations on the political economy of policy choice and implementation have been derived. This chapter, as the conclusion to the study, assesses the broader theoretical and policy implications of these findings.

The chapter is divided into three sections. The first section isolates the main theoretical and empirical observations of the study in regard to the political economy of policy choice and implementation in Ghana and Zambia. The second section situates the experiences of Ghana and Zambia within the broader context of structural adjustment in sub-Saharan Africa and draws specific policy lessons on the politics of economic policy reform. The third and final section briefly evaluates the overall adjustment effort in Ghana, highlights some of the more recent developments up to the end of 1992, and looks to the future to assess the prospects of continued sustainability of Ghana's economic recovery efforts.

[Section One]

Summary of Main Theoretical and Empirical Findings.

The central objective of this study, as set out in the introductory chapter, was to achieve a greater understanding of the Ghanaian experience at economic policy reform and thereby to obtain theoretical insights into the politics of economic policy making and implementation in LDCs.

Understanding and explaining Ghana's experience with economic policy adjustment under the PNDC presented an interesting puzzle both theoretically and empirically. In Ghana we had a radical regime that came to power highly critical of the established order in the international political economy and espousing the virtues of self-reliance. Within two years, this regime had made a 180 degree turn in its policies and had become a willing participant in the international order of which it had once been critical. For the next nine years a set of policies prescribed by external actors was implemented with such rigour that, in the face of repeated failures of those same policies elsewhere, Ghana was held-up as a model of economic policy reform for the rest of the continent.

What explains Ghana's turnaround? Can the experience of Ghana with economic policy adjustment be replicated in other African countries? What lessons on the politics of economic policy reform emerge? To answer these questions it is useful first to summarize the major findings of the study in regard to the relevant literatures, and then situate the experience of Ghana within the broader context of Structural Adjustment in sub-Saharan Africa.

Theoretical Findings:

The central theoretical questions that informed this study were: a) Under what conditions does an existing government choose to redirect economic policy; and b) Under what conditions can that government sustain its new policies? In essence the central question was: what role does learning play in policy choice and implementation?

In addressing these issues, the first task was to find an existing body of literature that shed some light on the research problem and then to develop an analytic and research framework to achieve the research objectives. This was done in part one (chapters one and two) of this study. In the absence of a well developed theory of the politics of economic policy making and implementation, the choice was made to examine four bodies of literature drawn from different fields, to obtain insights into the research problem and to provide a guide to the construction of the research framework.

The way the research problem was posed presented a challenge to several on-going debates both in the study of international relations and comparative development. These debates include: the debate on the role of the state in development, aspects of the levels of analysis debate including the state-society debate and the so-called `agent-structure' debate, and the problem of accounting for state `interests'. The discussion below summarizes the main findings of the study in relation to these debates.

I. **The Levels of Analysis**: In the study of the policy behaviour of states, whether of African states or of states in general, the issue of the levels of analysis permeates the literature. One aspect of this levels of analysis problem is reflected in the dominance of system-level explanations of the foreign economic behaviour of African states, and in the assumption that African countries do not have any endogenous choices to make in respect of adjustment. This level of analysis problem also goes to the heart of disagreements in two sets of literature that were surveyed in chapter one: the literature on the role of the state in Africa and literature on foreign economic policy making.

Although addressing a different set of actors, issues and outcomes, the two bodies of literature share in common disagreements over two central issues. The first is essentially a methodological question of whether individuals, state-level actors, societal actors or international system level factors are more important in the determination of policy and outcomes. Thus the disagreements between, for example, a dependency theorist such as Claude Ake, who emphasizes external constraints on development in Africa and a society-centred analyst such as Naomi Chazan, who emphasizes societal penetration of the state, is in part, a disagreement over the most appropriate levels of analysis.[1]

Another issue raised by the levels of analysis problem, particularly in relation to the study of change, goes beyond questions of methodology. This issue deals with questions of ontology - the building blocks of theory. Briefly stated, the issue here is how to conceptualize the empirical phenomena to be studied, and the relationships among them, into an explanatory discourse. Thus, for example, in the literature on the state in Africa, the inconsistencies in the images of the state, in its capacities and roles, that were noted in chapter one, stem from differences in the way the state is conceptualized by different analysts.[2]

The theoretical conclusions that emerge from this study have the following implications for the issues outlined above. First, in the study of the foreign economic policy behaviour of underdeveloped states, the disagreements over whether system-level, domestic level or individual level factors are more important in the determination of policy choices and outcomes, cannot be resolved theoretically. As the case evidence presented in this study reveals, the relative importance of factors from the different levels will vary from country to country and over time within the same country.

What the cases of Ghana and Zambia suggest is that focusing on system level factors in the explanation of policy choice can lead to misleading conclusions about the sources of policy change. The assumption that there is a direct linkage between systemic constraints and policy choice is misleading. There are important domestic and individual level factors that intervene. What is more important, therefore, is the construction of a theoretical framework with sufficient flexibility to permit the analyst to examine factors from the different levels and then, through the use of actual empirical evidence, or counterfactuals, gauge their relative impact on policy.

Second, that in the study of the foreign economic policy choices of African states there is justification for a theoretical emphasis on the state, provided that an appropriate definition of the state is employed. The criticism leveled at state-centred approaches in chapter one, particularly those grounded in realist assumptions, is not that they are wrong in emphasising the state in their explanations, but that the way they conceive of the state fails to adequately capture its nature, its interests and its powers.

The definition of the state utilized in this study views the state as both structure and agent.[3] This entailed: first, differentiating between the state as a structure (the concrete institutions of order and governance) and the state as agent (the political regime, or government as the medium through which the state `acts'); and second, to account for state actions by defining its activities relationally, in terms of the relationship between the internal state structures and the relationship between these structures and the social structures in which they are embedded.[4]

The advantages to such an approach were evident in the analysis of Ghana's and Zambia's economic policies. It helped to avoid a reification of the state by focusing attention on the patterns of conflict and accommodation both within the state and between state and society. It helped to disaggregate the concepts of state autonomy, strength and capacity. The problematic relationship among these concepts was noted in chapter one.[5] As the case of Ghana shows, a state can be automous yet be lacking in certain capacities and state autonomy can result from the state becoming an arena of social conflict.

Although theoretically useful, the distinction between the state-as-agent and the state-as structure, between the political regime and the other institutions of governance and order, is difficult to maintain empirically. And this is not surprising. Although the political regime is nominally the agency of the state - that part of the state that `acts' in the realm of economic policy making - the other branches of the state, the armed forces and the central bureaucracy, are also `actors' in their own right. This is especially the case in countries like Ghana where in national politics, there has been little distinction between soldiers, bureaucrats and politicians.

In effect, the distinction between agent and structure breaks down where institutional boundaries and responsibilities are poorly defined, and where the roles, identities and interests of actors are fluid and intersect at various points. This observation casts some doubt on the relevance of what has become an overly theoretical debate in the field of international relations.

II. The definition of State `Interests': The Sources of Policy Change:

The problem of accounting for state `interests' has been a source of continous debate in the political science literature. Rational choice analyses have attempted to resolve the problem by assuming a `portfolio' of interests ranked according to some externally-defined preference ordering.[6] While this approach may be parsimonious, it has serious limitations, particularly in the analyses of policy changes. This is due to the fact that rational choice analyses focus only on the process of choosing among options, without any explanation of the context for action, of what determines who the principal actors are, and of the prior definition and construction of the problem by decision makers.

As a result, such approaches beg the question of how interests are defined and policy preferences formed and changed in the process of choosing among options, especially where the context of action is changing. What is more important in the analysis of choice, therefore, is not the process of choosing among options but the analysis of how these options came to be in the first place: how policy makers define their preferences and identify their options in the course of formulating the problem.

The approach to the analysis of the political economy of policy choice employed in this study is one that has focused on the question: how do policy makers define their interests in the making of foreign economic policy choices? The focus has thus been on identifying the preconditions for choice, rather than the processes involved in decision making or on the actual choices themselves. In examining the preconditions for choice, the approach sought to construct a theoretical framework that would shed some light on the problem of identifying the sources of change in states' policy choices.

To overcome the limitations of rational choice approaches, the concept of the `definition of the policy problem' was developed. This concept focuses explicitly on the prior construction of the policy problem by policy makers in the process of choosing among options. The definition of the policy problem has two key properties.

First, it is intersubjective and focuses on the cognitive and affective meanings policy makers derive: interests are a function of identities and roles, beliefs and expectations. Second, it is situational: actors define their interests in the process of defining situations and problems. Interests are not independent of social context. Interests and preferences are not fixed but vary in the process of defining and redefining the problem.[7]

The advantages to such an approach were evident in the comparison of policy choice in Ghana and Zambia. Through the use of this concept the differences in the approach to the question of economic adjustment in Ghana and Zambia were brought to the fore in ways that would not have been possible with a rational choice approach. As noted in chapter six, what was significant about policy change in the two countries was not the actual policy options chosen - both conformed with the broad neoorthdoxy. The most significant differences were in the prior construction of the problem by policy makers in the two countries. In Ghana, the definition of the problem was accompanied by learning whereas in Zambia, no learning occurred.

There are two broad ways to approach the question of learning. The first is to view learning largely in instrumental terms - as a means, or to view learning in more substantive terms, in terms of ends. With instrumental conceptions of learning, the emphasis is on the processes - the changes in the beliefs, goals and understanding - through which the learner accomplishes certain goals and/or solves certain problems. With substantive views of learning, the emphasis is less on the process and more on the content and validity of the acquired beliefs and understanding of the learner.[8]

The view of learning employed in this study has been both instrumental and substantive. With the former, the emphasis has been on identifying whether, in the process of arriving at decisions to change policy direction, policy makers change their beliefs, goals and their understanding of the policy problem. This instrumental approach to learning makes no claim to explain the actual processes through which these changes occur, but rather to identify the conditions under which they are likely to occur and the role they play in policy choice and implementation. With substantive learning, this study has been concerned with the actual content of the acquired beliefs and understandings of policy makers. The major findings with respect to this substantive dimension of learning are discussed in section two below.

Although the evidence from the cases of Ghana and Zambia is insufficient to derive high-level generalizations, the following emerge as the conditions under which (instrumental) learning is more likely to occur. These conditions can be divided into two categories: situational factors and intersubjective factors.

Situational Factors and Learning:

1). The relative weighting of external and domestic factors in the definition of the policy problem and its consequences, strongly influences the occurrence or non-occurrence of learning. What the experience of Ghana suggests is that learning is more likely to occur where policy makers define the problem and its consequences mainly in domestic terms. Where external factors are more prominent, or rather, where policy makers define the problem mainly in terms of external factors, as in the case of Zambia, policy change is more likely to be adaptive.

2). Learning is also more likely to occur where policy makers enjoy a considerable degree of autonomy and insulation from strong societal pressures. This is due to the fact that learning requires that the regime enjoy some political space within which to recompose its ideology and political discourse.

3) The experience of Ghana also suggests that learning is a function of information and feedback. The ability of a government to learn is shaped by the channels through which information about the policy problem, and about the effects and consequences of policy actions, are communicated to policy makers.

In this regard, learning is more likely to occur where there is less uncertainty regarding the policy problem and its consequences; and where the consequences of policy inaction or failure are clearly communicated to the regime. The problems of uncertainty and information can be reduced through the formation of a transnational coalition - a strong and influential domestic technocratic team and their counterparts in the Fund and the Bank - through which ideas and knowledge (in this case a set of economic prescriptions) are communicated to the regime.

<u>Cognitive and Affective Factors and Learning</u>:

1) The presence or absence of a well defined belief-system, set of images, or ideology and goals, in relation to the policy problem, also influences the ocurrence of learning. This is especially the case where information about the problem challenges pre-existing beliefs. Since a key aspect of learning involves belief system change or a change in the images policy makers hold in relation to the policy problem, the absence of strong beliefs/images facilitates learning.

2) Learning is also influenced by the extent to which new or discrepant information about the policy problem and its consequences can be reconciled with pre-existing beliefs, goals and images. As cognitive psychologists have shown, people cannot tolerate high levels of cognitive dissonance. In the case of Ghana, a key aspect of the learning process that occurred with Rawlings was the fact that his ideology was vague and his goals ill-defined. Thus when confronted with new information about the policy problem which appeared to challenge pre-existing beliefs, Rawlings was able to reconcile the new information into his pre-

existing goals and beliefs. This was not the case with Kaunda in Zambia.

[Section Two]

LESSONS ON THE POLITICS OF ECONOMIC POLICY REFORM.

The answer to the question of whether the experience of Ghana can be replicated in other African countries is both `no' and `yes'. While there are aspects of the Ghana case that appear to be unique to Ghana, the product of an historical confluence of events that are unlikely to be replicated elsewhere, there are other aspects, particularly the role of learning, from which context-specific generalizations on the political economy of policy choice and implementation can be derived.

To assess the policy implications of the findings it is useful to situate the experience of Ghana and Zambia within the broader context of the debate over Structural Adjustment in Africa. There are two main currents in the literature on the impact of Structural Adjustment in sub-Saharan Africa. The first is what might be termed the pessimistic view, and the second is the more optimistic view.

I. **The Pessimistic View**: This perspective on Structural Adjustment is one that is fairly widely held by analysts of diverse disciplinary interests and by organizations such as the Economic Commission for Africa (ECA), and the Organization of

African Unity (OAU).[9] This perspective generally sees Structural Adjustment as having a negative impact on African countries for the following reasons:

1. Structural Adjustment has been imposed on African countries. It represents a new form of dependency. African governments are unwilling to undertake reforms. Where such reforms have been undertaken it represents a tactical or politically expedient move on the part of self-interested elites.

2. The economies of, and the politics in, sub-Saharan Africa operate according to different logics. Economic prescriptions predicated on the western model, which do not take into consideration the distinctive aspects of the African political economy, are doomed to fail.

3. The causes of Africa's economic crisis lie primarily (although not exclusively) in external factors, yet Structural Adjustment only emphasizes domestic reforms. As a result, the burden of adjustment has been disproportionately shifted onto the poor countries. Domestic reforms (e.g., export promotion) will not work in the absence of any changes to existing structures and relations in the international political economy (e.g., the international commodity markets and debt relief).

4. Neoorthodox Structural Adjustment has been insensitive to the social and political costs engendered by adjustment programmes. The record over the past decade or so indicates that Structural Adjustment is leading to the further impoverishment and marginalization of the most vulnerable groups.[10]

II. <u>The Optimistic View</u>: Diametrically opposed to the pessimistic view outlined above is the more favourable perspective of Structural Adjustment held not surprisingly, by the IMF and the World Bank, the governments of the G-7, and conservative economists. This view sees Structural Adjustment as having a positive impact on African countries for the following reasons:

1. The adoption of Structural Adjustment programmes has been the result of a consensus on the part of both African governments and the IFIs.

2. The economies of African countries are no different from economies elsewhere. If Structural Adjustment programmes fail, it is not due to the flaws in the adjustment programmes, but due to the failure to implement them properly.

3. The causes of Africa's economic crisis lie primarily (although not exclusively) in domestic policy failure. External

shocks have been of secondary importance. If the correct policies had been pursued, the impact of the external shocks would have been minimised.

4. Since the causes of Africa's crisis lie in domestic policy failure, reform should focus on changing domestic policy. No fundamental changes are required in existing structures and relations in the international political economy.[11]

At the core of the disagreement between these two perspectives on the role and impact of Structural Adjustment, therefore, is a debate about the role of the international environment in shaping economic policy choices and outcomes in Africa. The position of this study, based on the evidence from the case of Ghana, is closer to the pessimistic view. However, for reasons outlined below, neither perspective has quite come to terms with the fundamental economic and political constraints that a country like Ghana faced.

Criticisms of the Two Views:

First, the issue of policy choice in respect of adjustment. Neither the pessimists nor the optimists have appreciated the nature of the constraints that a country like Ghana faced in the early 1980s and that ultimately shaped the PNDC's adjustment choices and its record of implementation. And it is in the light of these constraints that the role of learning in shaping the PNDC's path to adjustment comes to the fore.

Throughout the study it has been emphasized that the question of what the PNDC learned should not be assessed in terms of what would solve Ghana's economic problems. A more useful way of looking at the role of learning is to view it in terms of what would <u>not</u> solve Ghana's economic problems.

In 1982, there were essentially two options available to the PNDC. The first option was to attempt to dissociate the country's economy from the patterns of trade and investment in the international political economy by implementing the strategy of self-reliance initiated in the May 1982 budget. The second option was to become a willing participant in the international political economy and thereby become more closely integrated into global patterns of trade and investment. The PNDC chose the second option and the reasons for this choice, as laid out in chapter four, were a combination of: a) the recognition of the structural and historical roots of the problem and the failure of existing policies, b) the need for external finance, and c) political expediency.

Initially the PNDC did attempt self-reliance but by the end of 1982 it had become evident that the strategy was not feasible. The major reason for this was the scale and magnitude of the economic trough into which the country had sunk. As noted in chapter four, by late 1982, production in all sectors, which had been declining since the mid-1970s, had dropped to precipitously low levels, including the production of basic food stuffs. One-third to one-half of all food requirements had to be imported. By October 1982 the country had barely enough foreign exchange to finance two week's imports. The result was an economic crisis of unprecedented proportions.

Substantively, what the PNDC learned, therefore, was not that integration into the global economy would solve Ghana's economic problems but rather, that self-reliance was not feasible in those circumstances. One cannot be self-reliant if one lacks the means of basic sustenance. To be self-reliant one must produce the means of becoming so. And the only way to increase production in those circumstances was to tackle the two fundamental constraints that had created the problem in the first place: economically, the foreign exchange constraint; and politically, the model of governance that had created a relationship among state, society and the economy that was destructive.

When the pessimists say that adjustment programmes are imposed on African countries, there are three major implications: a) that there are feasible alternatives which African governments are prevented from pursuing because of external coercion; b) that African policy makers are unwilling or incapable of undertaking any fundamental reforms, and c) that African governments do not have any endogenous choices to make in respect of adjustment.

The evidence from the case of Ghana, however, suggests that the adjustment choices of African governments are far more complex and cannot be dismissed as mere compliance or political expediency. In some cases, adjustment was pursued because policy makers came to recognize the failings of existing policy and structures, the absence of feasible alternatives and the necessity of attracting foreign aid. For countries like Ghana, the risks and costs of not changing policy far outweighed the risks and costs of doing so.

In essence, what the evidence from the case of the PNDC shows is that African governments do not have to be `coerced' by external agencies in order to undertake fundamental reforms of existing structures and policies. The role of the Fund and Bank then, was not to induce change, but to shape the direction of the change. Although Ghana stands out, it is by no means unique in this respect. Other notable examples of governments initiating adjustment in Africa are the cases of Babangida's Nigeria and Diouf's Senegal.[12]

On the other side, the argument of the optimists is also flawed. Although African governments may recognize the need for adjustment and may initiate the process, this does not in any way suggest that adjustment choices in Africa have been the result of a consensus between African governments and the external agencies. Consensus can only be reached between parties with roughly equal bargaining power. Where one of the parties has overwhelming superiority, talking of a consensus is misleading.

The fact remains that Structural Adjustment was not conceived in consultation with African governments nor was it conceived with the best interests of African countries at heart. Structural Adjustment was designed primarily with the interests of the international system in mind, and was designed by the parties that dominate this system. Thus even in cases like that of the PNDC, where there was a prior recognition of the need for reform, the kind of agreement achieved between the PNDC and the external agencies was at best, a constrained consensus, in which the options avilable to the PNDC had already been established.

The central point being made is this: the role of the IMF and the World Bank in shaping political and economic outcomes in Africa should not be exaggerated, and the role of African policy makers should not be reduced to that of mere `compradors.' What makes many critics uncomfortable is the idea that many of the changes occurring in Africa appear to have been induced by external factors. This is by no means the case.

In Ghana, at least, the seeds of what Structural Adjustment is trying to accomplish - reduce the role of the state - had already started before the IMF-World Bank programme began. In Ghana, state decline, the withdrawal from the formal economy, and the development of alternative means of social reproduction in response to this decline were spontaneous domestic reactions not induced by external factors.

Thus, Structural Adjustment, far from having been a source of these changes, merely chanelled them in a particular direction, and legitimated them. In effect, long before the commencement of the ERP I in 1983 and the ERP II in 1987, some form of adjustment in the relationship among state, society and the economy was already underway in Ghana. And as noted in chapter five, this was one of the keys to the success of the PNDC's adjustment efforts.[13]

This development - the retreat of the African post-colonial state - is one that is widely documented in the literature,[14] and is not unique to Ghana, although the extent of state debilitation and decay in Ghana was more pronounced than in other African countries. This development has largely been a product of domestic contradictions and changes within African countries.

The first generation of African leaders made state-building their top priority. Various brands of `African Socialisms', single party, corporate, patrimonial and authoritarian arrangements were created and justified on the basis of the distinctiveness of African cultural, social and political economies. All of these political arrangements have proven to be destructive.

The earlier generation of African leaders could use the memory of colonialism as a rallying cry to elicit support, both domestically and externally. As the memory of colonialism recedes, however, this argument loses its power. The tragic fact is that in many parts of Africa, political independence has not brought increased prosperity, but instead, a decline in living standards. A fundamental aspect of the African crisis therefore, and one that is often overlooked, has been the crisis in governance.

For the earlier generation of African leaders, the battle cry was `seek ye first the political kingdom' as Nkrumah once said. The imperative was to use politics and the state to effect state-building and social transformation. For the present generation of African leaders, the imperatives have changed. Not only have the structures of governance crumbled before they were consolidated, but the states' themselves appear to have lost their rationale. The reality is that in many African countries the structures of governance created over the past quarter century have not been conducive to economic development.

Thus, in evaluating the impact of adjustment in Africa it is important to distinguish between the types and the sources of the changes occurring - whether they are imposed from outside or not - and also to assess whether these changes are `good' or `bad'. Unquestionably, there are some fundamental flaws in the underlying ideology, the assumptions, the phasing and sequencing of reform measures under Structural Adjustment. These flaws, noted in chapters five and six, include among others, questionable assumptions regarding the role of the market and the failure to assess the political implications and requirements of economic precriptions in the relationship between state and society in the areas of production, consumption, distribution and investment. Many of the negative social and political costs engendered by adjustment, stem from these flaws.

On the other hand, not all of the changes occurring under Structural Adjustment are bad. The introduction of fiscal discipline, reductions in wasteful spending, the curbing of the activities of the rentier classes through more realistic exchange arrangements, and a new emphasis on production and increased returns to producers, are examples of changes for the better. Criticisms of Structural Adjustment should be careful to make these kinds of distinctions. For a wholesale rejection of

Structural Adjustment in the absence of feasible alternatives, implies an acceptance of the status-quo ante. This position is untenable.

This argument should not be construed as an endorsement of the position of the optimists. The rigidity in the neoorthodox formula for Stabilization and Structural Adjustment is both unnecessary and misguided. Greater flexibility in the selection of instruments and targets, greater attention to the political requirements of the different phases of adjustment, greater attention to structural and growth-oriented issues, and greater concern for the distributional impact of adjustment on the most vulnerable groups, will reduce many of the negative political and social costs engendered by the current adjustment formula. In effect, there should be a more careful effort to tailor programmes to suit local political and economic circumstances.

The optimists are also incorrect to downplay the role of external factors in Africa's economic crisis. While there have indeed been important domestic factors that have contributed to Africa's economic crisis, the scale and the magnitude of the external shocks of the late 1970s and early 1980s, plus the prolonged drought, would have had a negative impact on any African country irrespective of the kinds of economic policies pursued. Although the more recent Fund and Bank studies acknowledge the importance of external shocks, there is still a tendency to view the solution to Africa's cri is in terms of domestic constraints and reforms.[15]

Thus the pessimists are essentially correct: there are serious flaws in the logic in neoorthodox adjustment of using internal adjustments to respond to external shocks in the absence of any changes to existing structures and relations in the international political economy. Many of these flaws were noted in the adjustment experiences of Ghana and Zambia. Two areas stand out in this regard: external debt and commodity prices.

By 1991, African countries owed US$ 104b to official bilateral creditors; $23b to commercial banks; and $44b to multilateral agencies. In 1991, the IMF was the net recipient of $580m from the continent and since 1986, $30b (gross) in capital has left the continent.[16] This is the real tragedy of Structural Adjustment in Africa: in the absence of concrete measures to alleviate the crippling debt burden through debt relief and increased finance, and to stabilize commodity prices, no amount of internal adjustments will achieve economic recovery. This is true even for Ghana, where despite ten years of sustained reform, and improvements in virtually all macroeconomic indicators, the economy remains extremely fragile and vulnerable to external shocks.

<u>Specific Lessons and Recommendations</u>:

If one factor is to be singled out as the the most important condition shaping both policy change and sustainability, it is the occurrence of learning.

Learning shapes both a government's commitment to adjustment and its statecraft in managing political costs and risks. Where there is no learning, there will be little commitment. Commitment does not stem from notions such as `political will' and `courage'. Commitment has to be learned.

The importance of learning in shaping a government's commitment to adjustment stems from the observation made in chapter five on the importance of the perception of ownership of the programme. The sustainability of adjustment begins at the stage where the decision is made to adjust and at the negotiations for the programme. Where policy makers have not recognized the need for adjustment, where the decision to adjust is made reluctantly or under exteral pressures, in other words, where no learning has occurred, as in the case of Zambia, there will be little perception of ownership of the programme and little commitment to its objectives.

The importance of learning also surfaces in statecraft for managing costs and risks. Evidence from the experience of Ghana suggests that effective statecraft involves: a) the ability to respond to changing signals and resource availabilities; b) the ability to recognize the different political challenges and requirements of the different phases of adjustment and to make the corresponding changes; c) the ability to distribute costs and benefits more evenly; and d) the ability to negotiate concessions and flexible implementation schedules that more accurately reflect domestic political and economic realities.

Is the occurrence of learning a necessary and/or sufficient condition for sustaining reform? Based upon the experiences of Ghana and Zambia, learning can be said to be necessary: the evidence suggests that it is unlikely that a government will be able to sustain its reform programme where no learning has occurred. Learning, however, is clearly not sufficient. Learning alone will not guarantee success in sustaining economic policy reform. Other factors including institutional capacities, the level of external support, and the design of the programme itself, also affect implementation.

There are important aspects of the politics of adjustment from which the evidence from the experiences of Ghana and Zambia raise more questions than answers. These issues include the tradeoffs between Stabilization and Structural Adjustment, regime type and the ability to sustain adjustment, and the question of democratization and Structural Adjustment.

As noted in chapters five and six there are important tradeoffs between the deflationary emphasis of Stabilization which leads to a contraction in output vs. the growth emphasis of Structural Adjustment. To a very large extent, the sustainability of Ghana's programme was shaped by the outcomes, particularly in the growth in the output of all key sectors.

At the beginning of the ERP, the initial Stabilization measures introduced in 1983 did lead to a further contraction in national output. Real GDP growth in 1983 was -4.6%, making that year the worst in the country's already dismal post-independence economic history. The PNDC weathered the storm and by the end of

1984, growth was beginning to occur. GDP growth in 1984, for example, was 8.6%. And from 1985-90 real GDP growth averaged 6% per annum. (See table 10 below).[17]

There is a finding here that has some implications for the debate over the speed with which policy reform should be implemented, - the gradual approach vs. shock treatment.[18] Although the experience of the PNDC is by no means conclusive evidence, it does lend support to the advocates of the shock treatment. If Stabilization measures had been delayed or implemented more gradually, not only might political opposition have been given the time to crystallize, but the growth in the output of all key sectors including exports, would also have been delayed. And this is precisely what happened in Zambia.

Yet if, as the experience of the PNDC suggests, it takes a particular type of regime, one that is authoritarian and highly insulated from societal pressures, to successfully adopt the shock-treatment approach, then it appears that governments like Kaunda's UNIP are in a no-win situation as far as neoorthodox adjustment is concerned. In addition, although the PNDC's insular and authoritarian character aided in Stabilization, these factors were not conducive to eliciting supply responses under Structural Adjustment.

Thus the question of regime type and adjustment, and the relationship between Structural Adjustment and democracy cannot be adequately answered by the case evidence available. These questions will have to await further research. What the ambiguity surrounding these questions does reinforce, however, is the importance of making a greater effort to tailor adjustment programmes to more closely fit the political and socio-economic circumstances of the country involved.

And here the role of the Fund and the Bank is critical. Tracing the evolution of the lending practices of these institutions, there is no doubt that some changes have occurred. Both institutions, particularly the Bank, have made limited progress towards recognizing the particular needs of developing countries as a whole and of sub-Saharan African countries in particular. The mandate of the IMF today has extended beyond what its original articles envisaged - it is very much involved in issues of development. Yet these changes are not enough. As a net recipient of financial resources from the continent, the IMF in particular, has rapidly become a major part of the problem in sub-Saharan Africa.

[Section Three]

Ghana: Recent Developments and Future Prospects.

Table 9
Ghana: Changing Economic Performance

GDP Growth	1965-73	1973-80	1980-88
	3.5	-0.5	2.0
Inflation Rates (CPI)	1965-73	1973-80	1980-88
	6.4	60.3	43.0
Export Growth	1965-73	1973-80	1980-88
	0.4	-8.7	3.2
Import Growth	-7.8	-3.6	3.8

Source: World Bank, Trends In Developing Countries, 1990.

Table 10
Ghana: Selected Economic Indicators.
[Annual Percentage Changes)

	1983	1984	1985	1986	1987	1988	1989	1990
Real GDP.	-4.6	8.6	5.1	5.2	4.8	5.6	5.1	3.3
Real GDP/capita	-7.0	5.9	2.4	2.5	2.1	2.9	2.4	0.6
Inflation (CPI)	122	39.7	10.3	24.6	39.8	31.4	25.2	35.9
Exports (fob)	127.7	29.1	11.6	18.5	10.0	6.9	-8.2	11.0
Imports (fob)	-15.1	23.3	9.0	9.3	27.3	6.1	1.5	11.0
Exchange Rate (cedis/dollar)	8.8	35.9	54.4	98.8	165	205	270	330
Debt Service (inc. IMF)	31.9	40.4	54.7	47.8	58.3	68.0	58.1	37.9
Fiscal Balance (% of GDP)	...	-1.8	-2.2	0.1	0.5	0.4	0.7	0.2
Gross Investment	3.7	6.9	9.6	9.7	13.4	14.2	15.5	16.0

Sources: Republic of Ghana, Consultative Group Reports, various issues, 1988-1991, IMF, Ghana: Adjustment With Growth, 1991.

From a macroeconomic point of view, the impact of adjustment in Ghana appears to have been favourable. A before-after comparison of broad macroeconomic indicators, indicates improvements have occurred under the ERP I and II. (See tables 9 and 10). Yet, as noted in chapter five, these have been achieved at considerable social cost. After nearly ten years of sustained reform, there is little evidence that Structural Adjustment has made a noticeable improvement in the daily lives of the Ghanaian people.[19]

From 1983 to 1990, a fundamental restructuring occurred in Ghana that witnessed not only a major change in the approach to the management of foreign trade and exchange and in the types of foreign economic policies pursued, but also in the political, economic and social structures and relationships within the state, in society and between state and society. As a result, there were significant changes in the political economy of policy choice and implementation in Ghana under the PNDC.

The major changes that occurred under the PNDC were in the following areas. 1) The model of governance and the politics of distribution, particulary the decline in state-sponsored exclusionary patronage networks and the depoliticization of the economy and the marketplace; 2) the relationship between the political and other branches of the state apparatus; 3) the emergence of new social exchange networks independent of the state; and 4) the new emphasis on production as against distribution.

In the long term, the changes in these areas might be the overall benefit of Structural Adjustment in Ghana. The assault on the politics of distribution that has occurred since the early 1980s, may replace the statist-distributionist model. As Hutchful (1989) has noted, it is possible that finally a new form of politics, rooted in production, will take root in Ghana.[20]

A note of caution should be introduced to temper this optimistic assessment. First, although there is ample evidence of the emergence of realms of societal autonomy vis-a-vis the state, there is little evidence so far, that these represent lasting changes, particularly in terms of shifting the normative basis of political discourse in Ghana. If the recent debates about a future democratic government in Ghana are indicative of anything, they suggest that the norms that had infused Ghanaian politics in the past, norms that emphasised distribution and statism, are still very much alive. With the lifting of the ban on political parties in May 1992, the emerging political coalitions appear to be reincarnations of the old CPP-UGCC-PP axis, that has been the bane of Ghanaian politics.

The second and related issue of concern is the fact that Structural Adjustment lacks any concrete political programme. It was noted in chapter five that the most prominent shortcoming of neoorthodox adjustment has been the failure to examine the political requirements and assumptions of economic prescriptions. In Ghana, one of the greatest obstacles to economic policy formulation has been the fragmentation of the middle class and the absence of a basic consensus on either means or ends.

Under the PNDC, the balance of class forces shifted towards the technocratic wing of the middle class, who, with assistance from the Fund and the Bank, was able to establish a temporary hegemony. After nearly ten years, however, this coalition remains fragile. The central problem with the PNDC's hegemony formed around a technocracy, is the absence of any social and political constituency.

Thus, there is no evidence of the emergence of any significant class fraction, or coalition of class forces outside of the narrow technocratic stratum within the state, that is capable of articulating and championing the cause of adjustment and sustaining the reforms. This may prove to be the ultimate failing of neoorthodox Structural Adjustment in Ghana.

NOTES.

1. Similarly, the differences between a state-centred analyst like David Lake, who emphasizes the ability of the American State to pursue its policies even against societal opposition, and a society-centred analyst like John Ikenberry who emphasizes the role of special interest groups in shaping the foreign economic policies of the USA, is a level of analysis problem. See the chapters by David Lake and Jeffrey Frieden in John G. Ikenberry et.al, The State and American Foreign Economic Policy, (Ithaca and London: Cornell, 1988). For a review of this literature, see chapter one, pp. 52-58.

2. See chapter one, pp. 17-23.

3. See Peter J Katzenstein, "International Relations Theory and the Analysis of Change," in James Rosenau and Ernst-Otto Czempiel, Global Changes and Theoretical Challenges. (Mass: Lexinton, 1989) pp. 291-304; Alexander Wendt, "The Agent-Structure Problem in International Relations Theory," International Organization, 41, 3, Summer 1987 pp.335-370; David Dessler, "What's at Stake in the Agent-Structure Debate?" International Organization, 43, 3, Summer 1989, pp. 441-473.

4. See Chapter two, pp. 89-90.

5. See Chapter one, pp. 52-58.

6. See Alexander Wendt, "Anarchy is What States Make of It: The Social Construction of Power Politics," International organization, 46, 2, Spring 1992, pp. 391-425; Joseph S. Nye, "Neorealism and Neoliberalism," World Politics, 40, January 1988, pp. 235-251; Herbert Simon, "Human Nature and Politics", American Political Science Review, 79, June 1985, pp. 293-304.

7. See Alexander Wendt, 1991, op.cit, pp. 396-403.

8. For a fuller discussion, see chapter one, pp. 39-45.

9. See for example, ECA, African Alternative Framework To Structural Adjustment Programmes for Socio-Economic Recovery and Transformation. (Addis-Abbaba, 1989).

10. A brief sample of works that express this pessimism include: Bade Onomide (ed) The IMF, The World Bank and the African Crisis. vols. 1 & 2. (London: Zed, 1989); Timothy Shaw, "Reformism, Revisionism and Radicalism in African Political Economy in the 1990s," Journal of Modern African Studies, 29, 2 (1991) pp. 191-212; J. Barry Riddell, "Things Fall Apart Again: Structural Adjustment Programmes in sub-Saharan Africa," Journal of Modern African Studies, 30, 1 (1992) pp. 53-68; Andrew I. Schoenholtz,

"The IMF in Africa: Unnecessary and Undesirable Western Restraints on Development," Journal of Modern African Studies, 25, 3 (1987) pp. 403-433; Manfred Bienefeld, "Dependency Theory and the Political Economy of Africa's Crisis," Review of African Political Economy, 43, (1989), pp. 68-87.

11. See, for example, World Bank, Accelerated Development in sub-Saharan Africa: An Agenda For Action. (1981); Toward Sustained Development in sub-Saharan Africa: A Joint Programme of Action (1984); Sub-Saharan Africa: From Crisis to Sustainable Growth, A Long-term Perspective Study (1989); World Development Report, 1989 and 1990; Report on Adjustment Lending (1988); World Bank-UNDP, Africa's Adjustment and Growth in the 1990s, (1989); IMF, Annual Report 1989.

12. On Nigeria's adjustment experience, see Thomas Callaghy, "Lost Between State and Market, The Politics of Adjustment in Ghana, Zambia and Nigeria," 1990. On Senegal, see "Structural Adjustment in Africa: Insights from the Experiences of Ghana and Senegal," Report of a Staff Study, Committee on Foreign Affairs, U.S. House of Representatives, 1989.

13. In contrast, a large part of the failure of adjustment in Zambia was the absence of this kind of change in the relationship among state, society and the market prior to the commencement of its adjustment efforts. As noted in chapter six, one of the key differences between Zambia and Ghana was the continued salience of the politics of distribution in Zambia.

14. See for example, Michael Bratton, "Beyond the State: Civil Society and Associational Life in Africa," World Politics, 11, 3, (1989) pp. 407-430.

15. The recent World Bank study (1989) for example, identifies three major obstacles to economic development in Africa: a) policy frameworks; b) human resource development; and c) population. See World Bank, Sub-Saharan Africa: From Crsis to Sustainable Growth. A Long Term Perspective Study. (1989).

16. United Nations Report, Economic Crisis In Africa, 1991.

17. See Ishan Kapur et.al, Ghana: Adjustment with Growth, IMF, 199i. Table 1 p. 6.

18. See for example, Joan Nelson, "The Politics of Stabilization," in Feinberg and Kallab (eds) Adjustment Crisis in the Third World, (Wash, D.C.: ODC, 1984).

19. This may be due to the fact that much of the growth in GDP came from public investment, particularly in infrastructural development.

20. See Eboe Hutchful, "From `Revolution' to Monetarism," in Campbell and Loxley (eds) Structural Adjustment in Africa, 1989, pp. 127-128.

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