UNITED NATIONS RESEARCH INSTITUTE FOR SOCIAL DEVELOPMENT

DP 82

THE INSTITUTIONAL AND POLITICAL FRAMEWORK OF MACRO-ECONOMIC MANAGEMENT IN GHANA

by Eboe Hutchful

April 1997

The **United Nations Research Institute for Social Development (UNRISD)** is an autonomous agency that engages in multi-disciplinary research on the social dimensions of contemporary problems affecting development. Its work is guided by the conviction that, for effective development policies to be formulated, an understanding of the social and political context is crucial. The Institute attempts to provide governments, development agencies, grassroots organizations and scholars with a better understanding of how development policies and processes of economic, social and environmental change affect different social groups. Working through an extensive network of national research centres, UNRISD aims to promote original research and strengthen research capacity in developing countries.

Current research themes include: The Challenge of Rebuilding War-torn Societies; Integrating Gender into Development Policy; Environment, Sustainable Development and Social Change; Crisis, Adjustment and Social Change; and Volunteer Action and Local Democracy: A Partnership for a Better Urban Future. New research is beginning on: Social Policy, Institutional Reform and Globalization; Business Responsibility for Sustainable Development; New Information and Communication Technologies; Culture and Development; Gender, Poverty and Well-Being; Land Reform in Developing Countries; Emerging Mass Tourism in the South; and Public Sector Reform and Crisis-Ridden States. Recent research programmes have included: Ethnic Conflict and Development; Socio-Economic and Political Consequences of the International Trade in Illicit Drugs; Political Violence and Social Movements; and Participation and Changes in Property Relations in Communist and Post-Communist Societies. UNRISD research projects focused on the 1995 World Summit for Social Development included: Rethinking Social Development in the 1990s; Economic Restructuring and Social Policy; Ethnic Diversity and Public Policies; and Social Integration at the Grassroots: The Urban Dimension.

A list of the Institute's free and priced publications can be obtained from the Reference Centre.

United Nations Research Institute
for Social Development
Palais des Nations
1211 Geneva 10
Switzerland

E-mail: info@unrisd.org
World Wide Web Site: www.unrisd.org

ISSN 1012-6511

◆ Preface

In the 1980s, Ghana was held up by the international financial institutions as a model of successful adjustment in Africa. Against the background of a severe and persistent deterioration in the country's gross domestic product, hyper-inflation, mounting debt and extensive shortages of consumer goods during the 1970s, the economic turn-around of the 1980s was indeed remarkable: the budget deficit was eliminated, government revenue as a share of GDP almost tripled, savings and investment as proportions of GDP rose four and five times respectively (albeit from very low levels), the currency was stabilized and allowed to reflect its market value, inflation was brought under control, and GDP itself grew by about 5.2 per cent per annum. Much of this record has been put down to the consistent and rigorous way in which the military government of the Provisional National Defence Council implemented the adjustment programme, as well as the enormous financial and technical assistance it received from the World Bank and the IMF. Indeed, the World Bank has estimated that it committed twice as much staff time to the Ghanaian programme than to any other adjustment programme in Africa during the 1980s.

This Discussion Paper, which is a condensed version of a book manuscript that has been prepared for the Institute, surveys the institutional and political factors that were responsible for the programme's success and raises questions about its long-term sustainability. It challenges a widely held view in the recent literature that successful adjustment requires institutionalization, accountability and participation. In Ghana, adjustment was underpinned by very unorthodox institutional arrangements and politics. Highly centralized and personalistic structures were crafted by the political leadership to support the programme; well-motivated and capable technocratic managers enjoyed significant autonomy in defining and implementing their work; and the international financial institutions provided technical support without facing serious resistance from bureaucrats and vested interests — as would have been the case in more settled institutional settings. In short, economic restructuring was carried out in a context of de-institutionalization.

The structural adjustment team was drawn from three disparate groups: professional economists and planners in the civil service; political appointees, with varied professional backgrounds, who supervised the work of the civil servants, and took the crucial technical decisions for approval by the political leadership; and the adjustment management group, which was responsible for the political direction of the programme. Despite the heterogeneous character of the team (consisting of Marxists, liberal academics, politicians and bureaucrats), the key actors were able to produce coherent working agendas that were based on pragmatism, personal trust, and respect for the rules as defined by a charismatic and forceful political leader, Jerry Rawlings.

However, de-institutionalization had its costs: the private sector, like other organized interests, was never a partner in adjustment, and thus failed to respond positively to the reforms; and the democratization of the 1990s exposed the deep-seated divisions that had built up over the direction of the adjustment programme and forced a continuation of the personalistic style of presidential rule. The paper contends that the most noticeable effect of adjustment has been the restoration of the fiscal health of the state rather than the transformation of the real economy. And even this has proved fragile. The régime has been forced to dispense patronage in order to ward off increasing protests from organized interests as well as to retain political support. The effect has been a slackening of the reforms, with high fiscal deficits and substantial government borrowing from the central bank becoming major problems in the 1990s.

Eboe Hutchful is a professor of political science at Wayne State University in Detroit, Michigan. This study has come out of the UNRISD research project on **Crisis, Adjustment and Social Change** in Africa, co-ordinated by Yusuf Bangura.

April 1997

Dharam Ghai
Director

◆ Contents

◆ Acronyms and Abbreviations

AFRC	Armed Forces Revolutionary Council
AGS	Accelerated Growth Strategy
C	cedi
COCOBOD	Cocoa Marketing Board
COS	Committee of Secretaries (PNDC Cabinet)
ELU	Economic Liaison Unit
EMT	Economic Management Team
EPU	Economic Policy Unit
ERP	Economic Recovery Programme
GIMPA	Ghana Institute for Management and Public Administration
IMF	International Monetary Fund
ISSER	Institute of Statistical, Social and Economic Research
MFEP	Ministry of Finance and Economic Planning
MoA	Ministry of Agriculture
MoE	Ministry of Education
MSD	Management Services Division
NaTCAP	National Technical Cooperation Assessment and Programmes
NDC	National Democratic Congress
NRS	National Revenue Secretariat
ODA	Overseas Development Administration
OHCS	Office of the Head of the Civil Service
PAD	Policy Analysis Division
PAMSCAD	Programme of Action to Mitigate the Social Costs of Adjustment
PARDIC	Public Administration Restructuring and Decentralization Implementation Committee
PFP	Policy Framework Paper
PIP	Public Investment Programme
PPMED	Planning, Monitoring and Evaluation Department
PNDC	Provisional National Defence Council
PNP	People's National Party
PPBMED	Policy Planning, Budgeting, Monitoring and Evaluation Department
PSAG	Private Sector Advisory Group
RIC	Reconstruction Import Credit
RMC	Redeployment and Management Committee
SAC	Structural Adjustment Credit
SAIS	Structural Adjustment Institutional Support Programme
SAP	Structural Adjustment Programme
SAPGEC	SAP Secretariat
SDA	Social Dimensions of Adjustment
SMC	Supreme Military Council
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

INTRODUCTION

The structural adjustment programme in Ghana has been extensively discussed and evaluated in the literature (Loxley, 1988 and 1991; Green, 1988; Younger, 1992; Hutchful, 1989 and 1995a; Ahiakpor, 1991; Frimpong-Ansah, 1991, Kapur et al., 1991; World Bank, 1991). The programme has also received high marks from the World Bank and donors for its sustainability and rigour. This performance is all the more remarkable given the persistent failure of Ghanaian governments in the 1960s and 1970s to initiate or sustain stabilization. However, in spite of the high level of interest attracted by Ghana's programme, there has been little success (in my view) in elucidating the political economy of this apparent policy transformation, and little systematic effort to explore the institutional and political framework of macro-economic management in the country. Why did the government in Ghana switch from determined commandism in the 1960s and 1970s to rigorous and sustained market opening in the 1980s and 1990s (assuming, of course, that this is what has occurred)? The usual explanation is that past resistance to adjustment sprang from the existence of an "urban coalition" and the pervasiveness of rent-seeking activity or "crony capitalism" within the system fostered by administrative interventions, while the Provisional National Defence Council (PNDC), on the other hand, has been represented as a clear break with the traditional thrust of post-colonial economic logic and even as a triumph of "neo-liberalism". This way of posing the issue, in my view, substantially understates the actual complexity of the Ghanaian programme and the political and intellectual forces underlying it. In this paper, I begin by analysing the institutional and political framework of Ghana's programme, and then proceed to question the conventional wisdom that considers the Ghanaian programme a "neo-liberal" one, offering a somewhat different reading.[1]

The Economic Recovery Programme (ERP), introduced in 1983, was highly orthodox in most of its initial policies, combining deep exchange rate reform (a series of large discrete devaluations followed by an auction and eventually complete liberalization of exchange rates and international payments) with internal and external trade liberalization, strict credit ceilings, increases in interest rates, and reforms of the tax structure to increase revenue mobilization and reduce the tax burden on businesses as well as reliance of the budget on cocoa taxes. This was accompanied by an export sector rehabilitation programme aimed at the cocoa, mining and forestry industries, and a public sector investment programme (PIP) to rehabilitate economic and social infrastructure. In the second phase of the programme (ERP II), which began in 1987, a number of ambitious structural and institutional reforms were launched. These included restructuring and privatization in the financial, parastatal and agricultural marketing sectors, as well as reforms in education and the civil service. A programme to mitigate the social costs of

[1] This paper is a condensed version of a manuscript prepared for the United Nations Research Institute for Social Development (UNRISD) on Ghana's adjustment experiences under the title "Structural Adjustment in Ghana: Policy, Institutional and Sectoral Dimensions". The analysis focuses mainly, though not exclusively, on the period from 1983 to 1992, when the Provisional National Defence Council was in power. In January 1993 there was a change in government following elections, and the National Democratic Congress (NDC), also led by Jerry Rawlings, took power. See note 3 for a list of Ghana's governments.

adjustment (PAMSCAD) was also introduced. In the third phase of the programme (beginning in 1993) the objective shifted from "economic recovery" to "accelerated growth" with the introduction of an Accelerated Growth Strategy (AGS), which emphasized sustainable development and poverty alleviation through private sector development.

However, this orthodox programme has been underpinned by equally unorthodox institutional structures and politics. In this respect it appears at variance with the prescriptions of the literature on adjustment, which stresses institutionalization, accountability, participation and, lately, "democracy", as the ingredients for successful adjustment. Adjustment managers in Ghana placed the emphasis on cultivating and enhancing the régime and group autonomy perceived as necessary for rigorous adjustment. The highly centralized and personalistic structures that emerged around highly motivated and capable political and technocratic managers, fortified by the technical support of the multilateral organizations, made for policy rigour, speed and sustainability. Thus, although adjustment management did not achieve the level of institutionalization or bureaucratic complexity that one might have expected, the system did work in some respects. On the other hand, this same system was responsible for many of the weaknesses of the Ghanaian programme, particularly at the level of implementation and private sector response. Furthermore, "democratization" does not seem to have substantially altered this approach to management. In order to understand why adjustment in Ghana took such institutional and political directions, one needs some awareness of the pre-adjustment political conjuncture. Adjustment was preceded by internal shredding of both bureaucratic staff and social forces; this, combined with severe erosion of their material base by economic crisis, facilitated their domination by the PNDC and the staff of the multilaterals. In these circumstances, social forces were at once politically activated, fragmented and disorganized, and thus relatively easy to subordinate. De-institutionalization at the level of both state and civil society dispersed bureaucratic as well as social opposition and facilitated extensive interventions aimed at reforming structures of the Ghanaian economy.

A short review of the policy record would help to place the discussion in perspective. In the early 1960s, the Ghanaian authorities launched an ambitious development effort to transform the economy — based on import-substitution industrialization (ISI), capital-intensive techniques, and a large parastatal sector, funded through public capital (initially via utilization of