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THE PERILS OF "A GUGGISBERG ECONOMY"

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Summary

More than half a century after independence, the Ghanaian economy remains dependent on cocoa and gold for its survival. The country has failed to diversify the economy's production base all these years. In essence, the economy has retained its colonial "Guggisberg structure." The endurance of the Guggisberg economy has come with considerable costs. These include direct costs such as near-stagnation of export receipts, import dependency, aid dependency and external debt burden as well as indirect costs, including high unemployment, high cost of living, and weak currency. Unless a serious effort is made to break away from the Guggisberg economic structure, Ghana will continue to suffer its perils and fail to achieve true middle-income status. This article suggests ways of making this break and placing the economy on a path of growth and development.

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The origins and perils of the Guggisberg economy

The Guggisberg economy has endured because of the pursuit of certain policies, many of them dictated from outside. In particular, adherence to the doctrine of international division of labor or “comparative advantage,” large-scale privatization of state enterprises, de-subsidization of domestic industries and wholesale trade liberalization has allowed the Guggisberg economy to thrive.

One factor that has allowed the Guggisberg economy to endure is adherence to the doctrine of “comparative advantage.” Comparative advantage is a classical economic doctrine that encourages countries to specialize in the production and trading of goods which they produce “more efficiently” than others. The doctrine has filtered into policy advice given by Western-based development agencies to aid recipients. However, no Western country religiously adheres to this doctrine as industrialization has allowed them to diversify their production base. Why they preach to others a doctrine that they do not practice is anybody's guess. Some people have argued that their motive is to ensure that supply of raw materials for their industries is guaranteed.

For Ghana, adherence to the externally-inspired policy of comparative advantage has restricted the country to production of cocoa and gold. Because of their low value in raw form, however, these commodities fetch low prices in international markets, where Ghana is a pricetaker. Specialization in the production of cocoa and gold has stifled diversification of the economy. This has led to slow growth of export receipts, high import dependency, and a high vulnerability of the economy to exogenous shocks.

Another factor that has sustained the Guggisberg economy is the privatization of state industries. In the immediate post-independence period, it was duly recognized that the long-term development of the country was inextricably linked to industrialization, which would ensure diversification of the economy's production base. Enterprises were set up to produce wide-ranging import substitutes in order to make the economy self-sufficient. The policy was probably taken too far to the extent that an attempt was made to produce virtually every item conceivable. The underlying philosophy that industrialization was indispensable to economic development could not, however, be faulted. Weak management capacity, lack of local raw material supplies, and unavailability of domestic financing led to management inefficiencies, high production costs, and external indebtedness. These were problems that needed to be fixed.

However, instead of fixing them, successive governments adopted policies that have in a large measure reversed the early post-independence economic diversification, industrialization and self-sufficiency project. Again, taking advice mostly from outside, Ghana has implemented one of the most comprehensive and most ambitious privatization programs. A wide range of State-Owned Enterprises (SOEs) have been privatized (or closed), citing their inefficiencies. The industries involved include those dealing in steel, cement, distilleries, textiles, aluminum, food processing, mining, vehicle assembly, wood processing, pharmaceuticals, electronics, hotel and other catering services, publishing and printing, telecommunications and banking. Tearing down the economy's industrial capacity reinforced its Guggisburg structure and the perils associated with it.

While state industries were privatized, the country was also prevailed upon to remove subsidies to the remaining ones, citing budgetary considerations. In particular, financial subsidies, particularly low-cost credit, were removed. This led to many industries lacking affordable financing. When high-cost credits were sourced, production costs increased. As a result, many domestic industries were unable to compete with cheaper imports that in many cases benefited from subsidies in their countries of origin. This has forced many potentially-viable industries, many of them still in their infancy, to fold up. Over the years, Ghana has seen its key industries like textiles, rice, poultry, food processing and light manufactures suffer because of high production costs and inability to compete with cheaper imports.

The plight of domestic industries was further compounded by an externally-inspired policy of wholesale trade liberalization, involving elimination of import quotas, reduction in tariffs, and removal of other trade barriers. The argument made for this policy is that by opening the economy to the outside world, trade liberalization encourages domestic producers to be competitive and it also increases consumer choices and enables them to benefit from more competitive prices. However, under the policy of trade liberalization, domestic industries have been stunted by their inability to compete with cheaper imports—which, as indicated above, enjoy, in many cases, direct or indirect home subsidies. Trade liberalization has contributed to the stagnation and, in some cases, the demise of Ghana's potentially-viable infant industries, perpetuating the country's dependence on imports and chronic external imbalances.

Implementation of mostly externally-inspired policies of privatization, abolition of subsidies, trade liberalization, and specialization in production of cocoa and gold has de-industrialized the country and sustained the “Guggisberg economy” and its perils.

Breaking away from the “Guggisberg economy”

The Guggisberg economy has weak fundamentals that undermine long-term growth and development. The discussion about the fundamentals of the economy is often skewed in terms of macroeconomic indicators like inflation, the budget balance, the external balance and the exchange rate. These indicators are, however, only superficial and manifest more fundamental problems such as the inadequate stock and poor quality of physical and human capital, poor technology and weak institutions.

The way to break away from the Guggisberg economy and its perils is to improve the real fundamentals of the economy. And the starting point is to return to the immediate post-independence project of creating a self-sufficient economy in Ghana, while filling in any identified gaps in the original project. The key instrument of this project is diversification of the economy rooted in industrialization. In fact, it cannot be stressed enough that development without industrialization is almost unthinkable. To do this, the doctrine of comparative advantage in purity has to be jettisoned as well as wholesale privatization of industries, elimination of state subsidies and trade liberalization.

To break out of the “bondage” of “comparative advantage,” Ghana should follow the South East Asian countries' (SEACs) example to diversify its economy and promote industrialization. Industrialization is indispensable to growth and development and it should be pursued aggressively.

Ghana should refrain from privatizing state enterprises on a wholesale basis. The best approach is to carry out privatization on a selective basis. Indeed, following the example of the SEACs, the state should keep under its control, industries deemed strategic to the development of the country. Management of these enterprises should, however, be strengthened as needed and they should be supported with affordable credit and requisite public services and infrastructure.

Meanwhile, enterprises that remain under state control should not be denied genuine subsidies needed to reduce their production costs and thereby make them competitive. Particularly crucial in this regard is, as has been said, provision of affordable credit and public services.

The policy of trade liberalization should be tempered with introduction of tariff and non-tariff instruments where necessary to “shield” domestic industries from undue competition from imports, including in identified cases, from “dumping.” This will not infringe WTO or IMF rules. Also, just as other countries provide direct support to their exports, Ghana should actively promote its export industries by providing them all the necessary support—financial, technical and material.

While industrialization is the key instrument for the creation of a non-Guggisberg, self-sufficient economy, other supporting instruments would be needed. In particular, human capital and technology development are indispensable requirements for successful industrialization. To be a first class economy, Ghana must develop its technology through upgrading of indigenous technology and mastery and adaptation of imported technology. Quality human capital is the bedrock of technology and industrialization. Human capital development will require scaled-up investment in quality education and health care. Human capital development will provide needed technical and management expertise for domestic industries.

Experience from the early post-independence industrialization attempt highlights the importance of simultaneous development of agriculture-based raw materials to support domestic industries. Other important requirements for effective industrialization include: favorable and effective regulatory, legal, land titling, and labor market frameworks, conditions conducive to investment and business.

If the teeming challenges facing the Ghanaian economy are to be durably addressed, the real fundamentals should be strengthened. The most effective way to ensure this is through “de-Guggisbergization” of the economy' i.e. purging it of its colonial structure. This is a project that cannot wait much longer.

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