NO. 31 IEA MONOGRAPH

MITIGATING THE COSTS OF "WASHINGTON CONSENSUS" POLICIES: TITBITS FOR GHANA AND OTHER AFRICAN COUNTRIES

IEA Ghana
THE INSTITUTE OF ECONOMIC AFFAIRS
A Public Policy Institute

MITIGATING THE COST OF "WASHINGTON CONSENSUS" POLICIES: TITBITS FOR GHANA AND OTHER AFRICAN COUNTRIES

By Dr. J. K. Kwakye[1]

This work was carried out with aid of a grant from the
International Development Rsearch Centre (IDRC).

[1] Dr. J. K. Kwakye is a Senior Economist at The Institute of Economic Affairs.

About Us

The Institute of Economic Affairs

The Institute of Economic Affairs (IEA) Ghana was founded in October 1989 as an independent public policy institute dedicated to the establishment and strengthening of a market economy and a democratic, free and open society. It considers improvements in the legal, social and political institutions as necessary conditions for a sustained economic growth and human development.

The IEA supports research and promotes and publishes studies on important economic, socio-political and legal issues in order to enhance understanding of public policy.

Further information may be obtained from;

The Institute of Economic Affairs,
P.O. Box OS1936, Osu, Accra, Ghana.
Tel:+233- 302244716 / 307010714
Fax:+233- 302- 222313
Email: iea@ieagh.org
Website: www.ieagh.org

ISBN: 988-584-37-7
ISSN: 0855-3238

©2011 Copyright

Printed in Ghana. All rights reserved. No part of this work may be published, used or reproduced in any manner without written permission of the publisher except in the case of brief quotations in critical articles and reviews.

Publication of this work signifies that The Institute of Economic Affairs regards it as a competent treatment worthy of public consideration. The findings, interpretations and conclusions of this paper are entirely those of the authors, and should not be attributed to the Institute of Economic Affairs or any organizations that support it.

Preface

African countries have for several decades been receiving development assistance from the Bretton Woods Institutions (BWIs) based in Washington, D.C. The assistance comes with policies that reflect a liberal ideology fashioned in Washington and dubbed the "Washington Consensus" (WC). The WC's underlying philosophy is the superiority of the market and private enterprise, as against economic control systems and "statism," on "efficiency" grounds.

In consonance with this philosophy, BWI policy advice to African countries includes: promotion of specialization in production and trade; promotion of private enterprise generally in the economy; elimination of state subsidies, particularly to industry and agriculture; external trade liberalization; liberalization of financial markets; macroeconomic retrenchment and liberalization of product markets. There are, however, costs to these "market" policies in the sense that, despite their claim to efficiency, markets do not always work perfectly and may not always deliver maximum economic and social welfare. In that sense, there may be a need for an intervening hand to correct the associated market failings and to mitigate the socio-economic costs involved.

The push for African countries to continue to pay attention to their traditional primary products, in which they are professed to have "comparative advantage," has left the continent as the "hewer of wood and drawer of water" in the international production and trading system and stifled its development. African countries should break out of this liberal-orchestrated charade. They should follow the example of the South East Asian countries (SEAs) to diversify their economies and promote industrialization if they are to develop and break out of poverty.

Privatization, in principle, can lead to greater economic efficiency. But, there may not be enough African capacity to manage privatized State-Owned Enterprises (SOEs). New foreign owners of SOEs are usually motivated more by profit and may, therefore, take measures, such as employment retrenchment, that may have widespread socio-economic consequences. Price hikes and other inefficiencies are also possible, especially in monopolistic and oligopolistic industries. African countries should

Preface

undertake selective, not wholesale, privatizations, keeping under state control industries they deem strategic for national welfare, but with strengthened management systems. Private farming in Africa, based on the peasant system, is obsolete and unproductive. Large-scale, mechanized farming should be promoted, but in such a manner that the state plays a facilitating role rather than being in the driving seat.

State subsidies often entail fiscal costs and may create moral hazard. Here too, a system of selective, targeted, rather than universal, subsidies is the best approach. In particular, potentially viable infant industries should be assisted to develop into mature ones. Such assistance may be provided in the form of subsidized credit, subsidized materials, tax incentives, technology and services as needed to both industry and agriculture.

Trade liberalization opens up domestic industries to competition and provides consumer choices. However, fledgling industries may not all be able to face fierce competition from cheaper imports, many of which benefit from subsidies in their countries of origin. African countries should use both tariff and non-tariff instruments to "shield" their industries from undue competition from imports and allow them to flourish rather than wither. Africa must directly promote its exports using appropriate instruments, including supportive infrastructure and other facilities and services. Africa must also push for an international trading system that is mutually-fair and -beneficial to all parties using the WTO and the Doha Round platforms.

Liberalization of African financial markets, including through privatization of state banks, fast enrollment of new banks, and deregulation of interest rates, has had adverse consequences. It has led to denial of access to banking for many, particularly people in rural areas and the informal sectors. The cost of credit has skyrocketed in many African countries, including Ghana, leading to high business costs and the demise of many potentially-viable industries and projects. Meanwhile, liberalization has not generated expected competition and efficiency in general banking services. African countries should promote access to banking by as much of the population as possible, including by using nontraditional financial institutions and instruments that particularly cater for constituencies often excluded by the traditional banks.

Preface

Wherever necessary, credit quotas and subsidized credit should be deployed to support critical sectors, especially Small- and Medium-Sized Enterprises (SMEs). In Ghana, Central Bank intervention is absolutely necessary to regulate lending-deposit rate spreads that cannot in any way be justified in a highly-oligopolistic, inefficient, yet highly- profitable banking industry.

Often-overheated African economies may need a dose of stabilization. The BWIs' approach of fiscal and monetary retrenchment, however, leads to painful cuts in development and social spending, tax hikes, credit restrictions, and high interest rates, all of which are inimical to growth. A different approach is needed to mitigate these costs. "Macroeconomic restructuring," rather than "universal retrenchment" should be the approach. This calls for expenditure streamlining and reprioritization, enhanced spending efficiency and tax reforms to broaden and deepen especially direct taxes and to strengthen tax administration. When the fiscal house is put in order, monetary policy will be unencumbered and thus be able to be more supportive of economic growth through a regime of lower interest rates. Since banking system inefficiencies and the industry's oligopolistic nature, however, stubbornly hold up interest rates in Ghana and many other African countries, some regulation may be necessary to rein them in as well as other equally-high industry charges and fees.

Liberalization of product markets may promote efficiency in allocation of resources. However, in Africa, because of production/supply bottlenecks, liberalization only generates a sellers' market at the expense of consumers who become perpetual takers of prices that may be often riddled with high inefficiencies and "costs." Universal liberalization may also particularly hurt the poor who are usually less able to protect themselves. The right approach is to institute "subsidized pricing" of the kind of goods and services used largely by the poor—a kind of social safety-net system—including food staples, rural energy, rural water, primary education, primary healthcare and public transportation. Discriminatory taxes relating to luxuries and necessities may also be used as an instrument to assist the poor.

We hope you find this publication useful.

Jean Mensa
Executive Director

1. Introduction

For several decades, Ghana and many other African countries have received development assistance from the Washington-based Bretton Woods Institutions (BWIs)—the International Monetary Fund (IMF) and the World Bank (WB). As is the tradition, BWI's financial assistance is conditioned on implementation of prescribed policies that the institutions believe will restore sanity to the beneficiary economies. Policies prescribed by the BWIs reflect economic doctrines of the countries that dominate these institutions, particularly the western industrial countries. These policies generally reflect a "neoliberal tradition." A policy paradigm originating from Washington and dubbed the "Washington Consensus" (WC), the "neoliberal tradition" has dominated development policy for the last quarter of a century. The WC model considers "free markets" and "private enterprise" to be the essential ingredients for economic growth. On the other hand, it considers "economic controls and restrictions" and "statism" to be the binding constraints to growth and development.

Implementation of WC policies is, however, not without costs. In fact, no major industrial country or successful emerging-market economy, has ever adopted the WC policies wholly during the course of their development because of the socio-economic costs usually associated with them. It is inconceivable, therefore, that African countries are strongly prevailed upon to implement them wholesale. While WC policies encourage competition, emphasize economic efficiency, and encourage broadening of consumer choices, they are often associated with "market failures" that inhibit maximum economic expansion and optimum welfare for the broad population. Such "market failings" occur in key areas of WC policies, including relating to "comparative advantage" in production and trade, privatization, elimination of state subsidies, trade liberalization, liberalization of financial markets, macroeconomic retrenchment and liberalization of product markets.

After this introduction, the paper considers in Section 2 the key WC policies and the costs associated with them. The paper proposes interventions to mitigate the costs in Section 3. Section 4 concludes the paper. Ghana's experience is extensively used for illustrations in many areas that are generally applicable to many other African countries.

2. "Washington Consensus" (WC) Policies and Associated Cost

An underlying philosophy of WC policies is the superiority of free markets, which is said to engender competition and broaden consumer choices. WC policies also profess the superiority of private enterprise, considering the private sector more efficient compared to "statism" that, it argues, leads to low productivity, low efficiency and corruption, reflecting the notion that "government's business is nobody's business."

2.1 "Comparative Advantage" in Production and Trade

WC policies underscore the benefits of "comparative advantage," which is an offshoot of "economic liberalism." The theory of comparative advantage encourages countries to specialize in the production of products which they produce "more efficiently" than others. For Ghana and other African countries, this means they have to continue to produce traditional primary products. In the case of Ghana, these products have been cocoa, gold, and timber, which have long dominated the economic landscape for decades. On the one hand, we all take pride from the fact that these three commodities have sustained this country since our independence, providing jobs to many and contributing to our foreign exchange earnings that have supported our consumption and investments and whatever level of standard of living we have. However, on the other hand, while we may have "comparative advantage" in producing these commodities, overreliance on them and the failure to diversify our economy have also contributed to the stagnation of our export proceeds and, indeed, stifled our development.

Table 1 shows that Ghana's export concentration index has hovered around 0.4 for the entire period 1995-2009. For a nonoil economy, this is quite high. The fact that the index has not changed much during the period, which is likely to hold true if figures were available for the earlier years, also points to the fact that the structure of Ghana's exports has not changed to any significant extent. The Table also shows that the structure of Ghana's exports differs significantly from the world average structure, buttressing its relatively high concentration. These figures will generally hold true for many African countries which, like Ghana, have been loyal students of BWIs' tutelage in accepting their doctrine of "comparative advantage" or "international division of labor."

Other development agencies and instruments like USAID, DFID, MCA, AGOA, also often support development of primary-commodity industries in Africa—in consonance with the doctrine of "comparative advantage"—to increase the export of such commodities to feed factories in industrial countries. They scarcely assist in building capacity in manufacturing in Africa to produce high-value finished goods that may compete with those produced in industrial countries.

Table 1: Ghana: Export Concentration and Diversification Indices, 1995-2009

Year	No. of products	Concentration Index	Diversification Index
1995	95	0.44	0.85
1996	141	0.36	0.82
1997	132	0.34	0.85
1998	230	0.36	0.81
1999	239	0.33	0.79
2000	237	0.31	0.80
2001	239	0.31	0.84
2002	123	0.48	0.85
2003	248	0.43	0.84
2004	249	0.48	0.81
2005	248	0.38	0.82
2006	241	0.41	0.82
2007	239	0.41	0.77
2008	243	0.41	0.83
2009	206	0.44	0.82

Source: *UNCTAD, UNCTADStat Database, 2010*
Notes:

1/*Concentration index, also named Herfindahl-Hirschmann index, is a measure of the degree of market concentration. It has been normalized to obtain values ranking from 0 to 1 (maximum concentration).*

2/The diversification index signals whether the structure of exports or imports by product of a given country or group of countries differ from the structure of product of the world. This index that ranges from 0 to 1 reveals the extent of the differences between the structure of trade of the country or country group and the world average. The index value closer to 1 indicates a bigger difference from the world average.

The theory of comparative advantage has, however, been found to be an oversimplification of international production and trade relations and to be full of major flaws. Moreover, it does not offer a credible basis for economic growth and development of the Third World and may, indeed, perpetuate their underdevelopment. Despite the weaknesses and questions associated with the theory of comparative advantage, the BWIs have continued to advocate it in their policy advice to Africa under the WC model and neoliberal tradition. But, many people in the Third World believe that this is all a "capitalist orchestration" to keep them hooked to systems of production that benefit industrial countries, but harm them. The comparative advantage doctrine perpetuates dependence of the Third World on production of primary goods of low value in international markets. This leaves the Third World as the "hewers of wood and drawers of water" in the international economic system, with little reward for their arduous labor. By design rather than accident, primary product prices are dictated in

international markets, where they experience greater volatility and generally fare poorly, whereas secondary and tertiary products—produced by industrial economies—are continually valued high in world markets. This is all part of the “international economic order” that keeps Third World countries producing low value-added, low-tech products prone to adverse terms of trade, with concomitant harmful effects on their incomes and wellbeing. A faithful adherence to the doctrine of comparative advantage perpetuates the underdevelopment of Africa and other Third World countries.

Comparative advantage discourages industrial development in Africa, which is indispensable to economic growth and development. It obliges Africa to look perpetually to industrial countries for its needs of manufactured products. It is not surprising that over all these years that African countries have been receiving policy advice from the BWIs, the fundamental structures of their economies have not shown any significant change. Non-oil producing Africa's share of world trade has remained low while many African countries continue to face volatile and deteriorating terms of trade. Their domestic production and export structures have not changed much and most countries continue to depend disproportionately on primary products for which they remain price takers in world markets. As a consequence, African economies remain fragile and vulnerable to exogenous shocks.

It has been argued that given the importance of industrialization for Africa's development, the continued advocacy of “comparative advantage” along with trade liberalization by Washington and its allies would seem “misguided” or, even, “mischievous.” This is because it will only leave the continent unindustrialized, poor, and perpetually dependent on the rest of the world.

2.2. Privatization or Closure of State-Owned Enterprises

In line with the liberal philosophy underlying their policies, BWIs encourage private enterprise and limited role for the state. They prescribe privatization of state-owned enterprises (SOEs), as they regard private enterprises to be superior in terms of being more efficient compared to the relative wastefulness and low productivity of state enterprises. Those SOEs regarded as economically-unviable are recommended for closure.

Ghana, for example, has had one of the most comprehensive BWI-prescribed privatization experiences. Several SOEs were established in the early post-independence period to reduce the country's dependence on imports and enhance its self-sufficiency. As Table 2 shows, a wide range of enterprises have been privatized (or closed) during 1989-2009 (the period for which data is available to us). These include those dealing in: steel, cement, distilleries, textiles, aluminum, food processing, mining, vehicle assembly, wood processing, pharmaceuticals, hotel and other catering services, publishing and printing, telecommunications and banking. Significantly, manufacturing enterprises dominate the list.

Table 2: Ghana: Profile of Privatized SOEs and Proceeds

Company Name	Year	Sector	Deal Type/Deal Sub-Type	Proceeds ($ millions)
GEA & Associates	1989	Other		0.09
NICTEX Factory	1989	Manufacturing & Services		0.74
Reiss & Co. Ltd.	1990	Other		0.07
Metalico Ltd.	1990	Manufacturing & Services		0.07
Apremdo Poultry	1990	Manufacturing & Services		0.08
GIHOC Ice and Cold Ltd.	1990	Manufacturing & Services	Liquidation	0.10
Overseas Knitwear & Fabrics Ltd.	1990	Manufacturing & Services		0.11
D L Steel Ltd.	1990	Manufacturing & Services		0.13
Two Worlds Manufacturing	1990	Manufacturing & Services		0.18
GIHOC Glass Factory-Abosso	1990	Manufacturing & Services	3-year lease	0.48
Continental Hotel	1990	Services		3.58
Lever Brothers	1990	Other		5.50
Catering & Rest House-Cape Coast	1991	Other		0.12
Ghana Aluminium-Tema	1991	Primary	Direct sale	0.25
Neoplan Ghana	1991	Manufacturing & Services		0.28
GIHOC Motor & Machine Shop	1991	Manufacturing & Services		0.30
GIHOC Steelworks	1991	Manufacturing & Services		2.10
Pioneer Manufacturing Ltd.	1992	Manufacturing & Services		1.03
Nestle	1992	Manufacturing & Services		1.20
Irani Brothers	1992	Other		1.30
Guinness Ghana Ltd.	1992	Manufacturing & Services		2.42
Ghacem	1992	Manufacturing & Services		4.07
West African Mills	1992	Manufacturing & Services	Joint venture	5.20
Kumasi Glue Factory	1993	Manufacturing & Services	Sale of shares	1.00
Tarkwa gold mine	1993	Primary		2.00
Achimota Manufacturing	1993	Manufacturing & Services	US$3.5m IFC loan, US$1m equity investment	24.50
Pankrono	1994	Manufacturing & Services	Direct sale	0.05
Kentirkrono	1994	Manufacturing & Services	Direct sale	0.05
Umarco	1994	Services	Sold to existing shareholders	0.05
Fafia Auto Parts	1994	Manufacturing & Services	Sold to existing shareholders	0.14
NIC Estates	1994	Financial	Direct sale	0.21
NIC Vehicle Assembly Plant	1994	Manufacturing & Services	Direct sale	0.21
Dunkwa Goldfields	1994	Primary	Joint venture	0.40
ICAP/GIHOP Pharmaceutical	1994	Manufacturing & Services		0.40
L'Air Liquide	1994	Infrastructure	Direct sale of shares	0.59
Ghana Textile Printing	1994	Manufacturing & Services	Direct sale of shares	0.81
African Timber and Plywood	1994	Manufacturing & Services	Direct sale	4.00
Tema Food Complex Corp.	1994	Manufacturing & Services	Direct sale	15.00

Ashanti Goldfields Company(AGC)	1994	Primary	Public offer Ghana Stock Exchange with foreigners participating	454.00
NIC Vehicle Assembly Plant	1995	Services		0.02
Pankrono Poultry Farm	1995	Manufacturing & Services		0.05
Akokerri Oil Palm Plantation	1995	Manufacturing & Services		0.06
SAMCO	1995	Services		0.24
Kumasi Catering Rest House	1995	Services		0.25
Juapong Textile	1995	Services		0.32
Ghana Pioneer Aluminum Company	1995	Primary		0.62
SFC-8 Fishing Vessels	1995	Manufacturing & Services		2.00
African Timber & Plywood	1995	Services		3.50
Ghana National Manganese Corp	1995	Services	Direct sale	4.00
Ghana Oil Palm Development	1995	Manufacturing & Services		6.50
GNTC Bottling Co. Ltd	1995	Services		7.00
Ashanti Goldfields Company(AGC)	1995	Primary	GDRs	62.00
National Investment Bank	1995	Financial		
Gharmot Property: Subaru H	1996	Services	Sale of assets	0.04
Gardecorp Quarry, Weija	1996	Manufacturing & Services	Sale of assets	0.04
Akim Manso & Topease Rubber Plantation	1996	Manufacturing & Services	Sale of assets	0.10
Tamale Catering Rest House	1996	Services	Sale of assets	0.11
Ghana Publishing Corporation	1996	Services	Sale of assets	0.14
Ghamot Property: Industrial Area	1996	Services	Sale of assets	0.15
State Fishing Corporation	1996	Manufacturing & Services	Sale of assets	0.16
Woezor Hotel	1996	Services	Sale of assets	0.16
Dorado Garment Factor	1996	Manufacturing & Services	Sale of assets	0.24
GNTC Metal Works	1996	Services	Sale of assets	0.25
Meridian Hotel, Tema	1996	Services	Sale of assets	0.25
GIHOC Marble Works Co.	1996	Services	Sale of assets	0.31
GIHOC Cannery	1996	Manufacturing & Services	Sale of assets	0.35
Prefabricated Concrete Pdts	1996	Services	Sale of assets	0.59
NIC Properties: Head Office	1996	Financial	Sale of assets	1.10
Ghana Film Industry Corp.	1996	Infrastructure	Joint venture	1.40
Automotive Tech. Services	1996	Services	Sale of assets	2.26
GNTC Properties (33 units)	1996	Services	Sale of assets	2.44
City Hotel, Kumasi	1996	Services	Sale of assets	2.50
Ghamot Motors	1996	Services	Joint venture	2.80

Tema Shipyard & Drydock	1996	Infrastructure	Joint venture	4.20
Ghana Rubber Estate Ltd	1996	Services	JV	23.65
Tomos Ghana Ltd	1996	Services	Sale of shares	30.21
Ashanti Goldfields Company(AGC)	1996	Primary	GDS	112.20
Bardec Residential Unit	1997	Financial	Sale of assets	0.00
GPC Housing Units (7)	1997	Services	Sale of assets	0.03
Jusao Oil Palm Plantation	1997	Manufacturing & Services	Sale of assets	0.05
Akwanserem Oil Palm Plantation	1997	Manufacturing & Services	Sale of assets	0.05
Hotel Eredec	1997	Services	Sale of assets	0.24
Cattle Ranch, Amee Lorkoe	1997	Manufacturing & Services	Lease	0.37
TFCC Lashibi Farms	1997	Manufacturing & Services	Sale of assets	0.37
Ghamot Property	1997	Financial	Sale of assets	1.00
Gihoc Cannery, Pwalugu	1997	Manufacturing & Services	Sale of assets	1.80
Gihoc Pharmaceutical	1997	Services	Sale of assets	9.10
Social Security Bank	1997	Financial	Private sale	16.60
Ghana Telecom	1997	Infrastructure	Direct sale	38.00
State Shipping Line Properties	1998	Other	Auction	1.00
Ghana Bauxite Company Ltd	1998	Primary	Direct sale	1.70
Coca-Cola (GNTC) Bottling	1998	Services	Direct sale of shares including private placement and negotiations	2.00
Twifo Oil Palm Plantation	1998	Manufacturing & Services	Competitive sale of assets	6.39
Barclays Bank Ghana Ltd	1998	Financial	Direct sale	9.59
Ghana Seed Company Ltd.	1999	Manufacturing & Services	Liquidation	
GIHOC Boatyards, Tema	1999	Manufacturing & Services	Liquidation	
GIHOC Vegetable Oil, Tamale	1999	Manufacturing & Services	Liquidation	
Medie Horticultural Nursery	1999	Manufacturing & Services	Trade sale	
New Match Factory Ltd	1999	Manufacturing & Services	Trade sale	
Ghana Publishing Tema	1999	Manufacturing & Services		3.00
Other	1999	Other	Various methods	36.47
Ghana Bottling Company (PEPSI)	1999	Manufacturing & Services		
Loyalty Industries	1999	Manufacturing & Services	Restitution	
Cocoa Processing Company	2002	Competitive	Divestiture/Partial	27.95
Port of Tema	2003	Infrastructure	Concession/Rehabilitate, operate, and transfer	
Mobitel Ghana	2004	Infrastructure	Greenfield project/Build, own, and operate	22.50
Scancom	2004	Infrastructure	Greenfield project/Build, own, and operate	22.50
Westel	2007	Infrastructure	Divestiture/Partial (75%)	120.00
Ghana Telecom (2nd Divestiture)	2008	Infrastructure	Divestiture/Partial	900.00
Globacom Ghana	2008	Infrastructure	Greenfield project/Merchant	50.00

Source: Wold Bank, Privatization Database (http://rru.worldbank.org/Privatization)

Admittedly, many of Ghana's SOEs were poorly managed and became dependent on state funds for survival. But, the wholesale privatizations and closures have had their own costs. Closure of industries, some of which were strategic, has undermined the country's development and self-sufficiency, and increased its dependence on imports. Manny African countries emerged from colonialism with large public sectors. As a consequence, the private sectors tend to be small and lack the capacity to manage privatized SOEs efficiently. Therefore, most privatized enterprises fall into foreign hands. Often taking over loss-making enterprises and with economic profits as their main motivation, private entrepreneurs invariably take immediate actions to reduce their costs. And the first casualty in this regard is often the labor force. Reduction in the labor force, however, does not only harm the individuals involved, but may also have widespread social repercussions in countries that lack effective social welfare systems. While cutting costs, private enterprises also often seek to increase their revenues through higher prices for their products. But, this belies the claim that they are more efficient and it hurts consumers.

Privatization of SOEs in Africa has not generated expected competition and has led to even higher prices and limited improvement in the quality of services in many cases. The problem is even worse when public monopolies are replaced by private monopolies such as in the water and power sectors, where there are greater opportunities for financial exploitation for private profit, but at considerable social costs. Several hurried African privatizations effected at the instance of the BWIs are known to have encountered such problems. You see, we cannot run every company/organization for commercial purposes only. Some serve a social purpose as well. Getting the balance right is of course always a challenge and calls for well-considered judgement.

With privatization of SOEs, the question arises as to whether there is enough private expertise locally to manage them efficiently. Even where foreign private expertise is available to manage privatized SOEs, in the absence of effective regulation, privatization may lead to private monopolies replacing public monopolies at both social and economic costs. Privatization may also bring with it foreign technology that may not only be inappropriate for local conditions but may also discourage development of local technology. Developing one's own technology and continuing to adapt it represents a better approach to sustaining one's development than trying to adopt foreign technology line, hook, and sinker.

The BWI concept of private enterprise is often extended to the agricultural sector in Africa. In that sector, the BWIs discourage state involvement and encourage private farming, which is largely of the traditional peasant-type. Peasant farming involves the use of poor implements and obsolete technology. It is also usually carried out on a small scale due to the use of simple tools, its high labor-intensiveness, and lack of mechanization. Unlike advanced countries where availability of financial resources allows private individuals to undertake large-scale mechanized farming, in Ghana and other African countries, it is usually the state that has the resources to do that. Budgetary

considerations and mistrust for 'statism' are, however, used by the BWIs to discourage state involvement. The consequences of BWIs' insistence on private, peasant-type farming have been low productivity, low yields and low output. This has contributed to perpetuate Africa's food insecurity, dependence on food aid and rural poverty.

2.3 Elimination of State Subsidies

Elimination of material and financial subsidies to industry and agriculture is a key plank of BWI policy advice. This policy is rationalized in terms of reducing fiscal costs and risks. But what it does in reality is to place economic stability considerations ahead of much-needed growth and development.

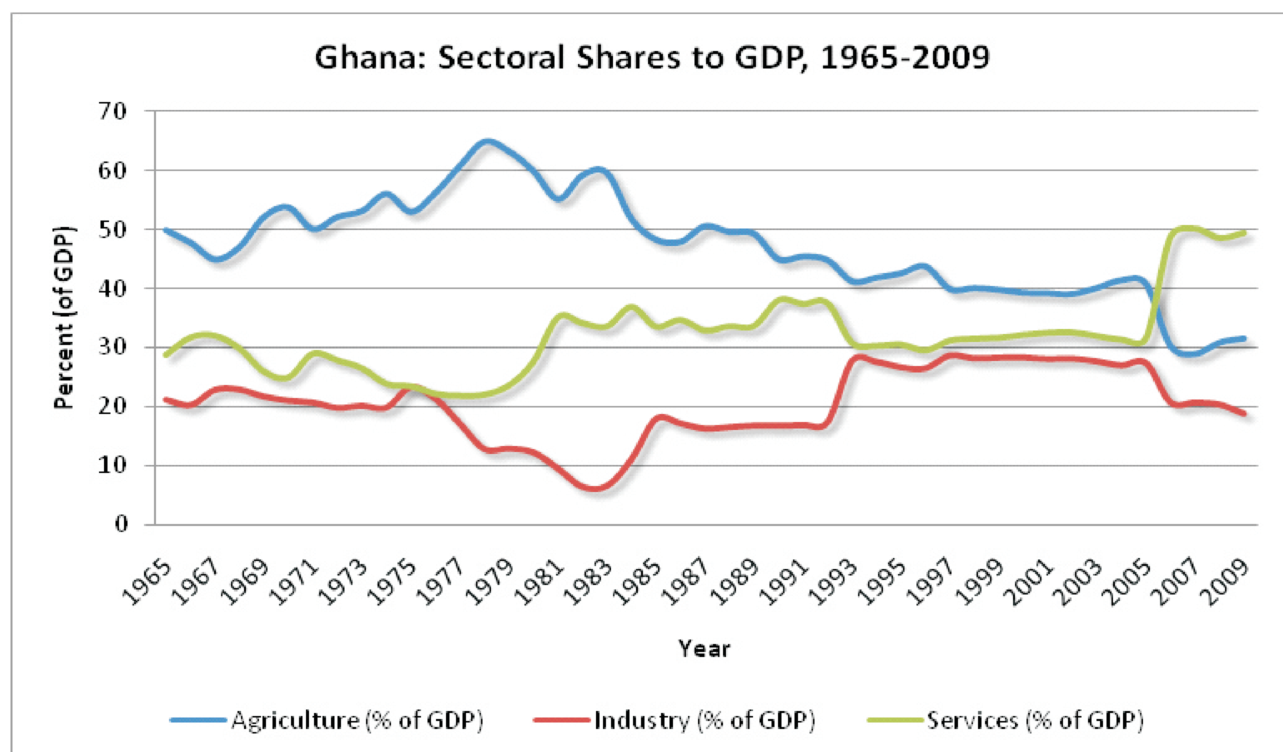
In industry, elimination of subsidies, especially in the form of cheaper credit, has led to the demise of many African enterprises that could otherwise have been viable in the long-term and could have contributed to the continent's development and self-sufficiency. Elimination of subsidies has rendered industries in Ghana and other African countries incapable of competing with cheaper imports that often benefit from subsidies in their countries of origin. As a result, many potentially-viable industries, many of them still in their infancy, have been forced to fold up. It is not by accident that Ghana's industrial/manufacturing sector has been shrinking; this is the direct consequence of liberalization policies. Table 3 below shows that for 45 years between 1965 and 2009, the relative size of Ghanaian industry has generally declined, with the manufacturing subsector showing the steepest decline. During the period, agriculture's relative size has also declined more markedly, while that of services has risen significantly. The more dramatic changes seem to have occurred in the last five years, when services' relative size has risen sharply as against a similar sharp fall in the share of agriculture, resulting in the services sector replacing agriculture as the lead sector of the economy. When Ghana's GDP was rebased in 2010, the relative shares of agriculture, industry and services were stated as 30.2, 18.6 and 51.0 percent respectively. The significance of the transformation in the economy over the period 1965-2010 is seen more clearly when one compares these with the respective relative shares back in 1965 when they were 49.9, 21.3 and 28.8 percent. While, as expected, there have been fluctuations in the relative shares over the period, taking the end points alone, agriculture's share has fallen by 19.7 percentage points, industry's share has virtually remained flat, and services' share has risen by 22.1 percentage points.

Table 3: Ghana: Sectoral Contribution to GDP (%), 1965-2009

Year	Agriculture	Industry	o/w Manufacturing	Services
1965	49.9	21.3	11.2	28.8
1966	47.9	20.3	11.3	31.8
1967	45.1	22.9	13.3	32.1
1968	47.2	23.0	14.2	29.9
1969	52.3	21.8	14.1	26.0
1970	53.9	21.1	13.2	25.0
1971	50.2	20.8	12.5	29.0
1972	52.3	19.9	12.2	27.9
1973	53.3	20.2	12.7	26.5
1974	56.2	19.9	11.8	23.9
1975	53.1	23.4	15.5	23.5
1976	56.4	21.4	14.7	22.2
1977	60.9	17.2	11.7	21.9
1978	65.1	12.9	9.3	22.1
1979	63.4	13.0	9.2	23.6
1980	60.1	12.3	8.1	27.6
1981	55.3	9.5	6.2	35.2
1982	59.4	6.5	3.7	34.2
1983	59.7	6.6	3.9	33.6
1984	51.9	11.2	6.7	36.9
1985	48.4	18.0	12.4	33.6
1986	48.0	17.2	11.2	34.7
1987	50.7	16.4	9.9	32.9
1988	49.7	16.6	9.6	33.7
1989	49.4	16.9	10.1	33.7
1990	45.1	16.9	9.8	38.1
1991	45.6	17.0	9.3	37.5
1992	45.0	17.5	9.4	37.6
1993	41.4	27.8	10.5	30.8
1994	42.0	27.7	10.1	30.4
1995	42.7	26.7	10.3	30.6
1996	43.9	26.6	9.7	29.6
1997	40.1	28.7	10.1	31.2
1998	40.2	28.2	10.0	31.5
1999	39.9	28.4	10.1	31.7
2000	39.4	28.4	10.1	32.2
2001	39.3	28.1	10.1	32.5
2002	39.2	28.2	10.1	32.6
2003	40.2	27.8	9.9	32.0
2004	41.6	27.1	9.6	31.4
2005	40.9	27.5	9.5	31.6

2006	30.4	20.8	10.2	48.8
2007	29.1	20.8	9.2	50.2
2008	31.0	20.4	7.9	48.6
2009	31.7	18.9	6.9	49.5

Source: World Development Indicators, 2010; World Bank



Because the foregoing figures represent relative shares, they do not show the absolute increases or decreases in the respective sectors of the economy. What seems clear however, is that, on the whole, the services sector has grown at a much more rapid pace than industry and agriculture. It seems also that the agricultural sector has shown the least growth in terms of the value of its output, which combines quantities and prices. The decline in the relative share of agriculture is to be expected as the economy transforms from agrarian to industrial during the course of a country's development. What is worrying, however, is the apparent stagnation of industry, which should have been taking over from agriculture in the course of development, and the resurgence of services so early in the country's development.

It is known that Ghana over the years has seen its key industries like textiles, rice, poultry, food processing and light manufactures suffer because of their inability to compete with cheaper imports. Many people have expressed concern about the relative decline of the industrial/manufacturing sector, pointing out that industry is the main backbone of and is indispensable to the development of any economy. The emergence of services as the largest sector of the economy is seen as inimical to the desired transformation and long-term development of the economy and needs to be reversed.

In agriculture, seeds, fertilizers, and credit subsidies, among others, become casualties of BWI policy advice. The advice often goes beyond subsidies to other direct state interventions like budgetary support for irrigation, storage, preservation and marketing facilities. Withdrawal of such interventions has had severe adverse consequences on African agriculture. African agriculture has been left at the mercy of the rain and backward technology that have been behind low productivity and low yields. Lack of storage, preservation and marketing facilities implies that substantial amounts of produce go to waste thereby reducing the incentive for farmers to increase their production from year to year. In Ghana, inadequate storage and preserving facilities for tomatoes, pineapples, banana and maize, among others, results in yearly wastage of these products. This problem is behind Africa's perennial food insecurity and dependency on food aid. We recall a report sponsored by the World Bank years back to examine the performance of African agriculture that acknowledged that the Bank's recommendation to eliminate subsidies and other government interventions had failed the development of African agriculture and that a different approach was needed. As to whether the Bank has acted on its own study and adopted a different approach, the jury is still out there.

Ironically, while African countries are prevailed upon to abolish their agricultural subsidies, many industrial countries maintain large subsidies for their farmers. This not only hurts African producers, but it is also inimical to world trade and growth. The *Economist* magazine reported in its July 25th-August 31st, 2009 edition that the Organization for Economic Cooperation and Development (OECD) countries—comprising leading industrial and emerging market countries—reported spending $265 billion on farm subsidies in 2008, slightly more than a fifth of their farmers' total earnings. Ironically, previous rounds of international trade negotiations rather pushed largely for reduction of protection of manufactures targeted mainly to emerging market countries, which was of interest to the key industrial countries. Protection of agricultural products by industrial countries, however, remained largely in place and even escalated in some instances. Provision of huge subsidies by industrial countries to their domestic producers of agricultural goods—where African production is concentrated and where African producers are supposed to have “comparative advantage”—has rendered African producers uncompetitive in world markets.

Most African countries still have a disproportionately high percentage of their population engaged in agriculture, but because of their low productivity—due to low capital base, backward technology and largely rain-fed production—they are unable to produce enough in many cases to feed their own families let alone their countries. Thus, African countries continue to import food or depend on food aid especially during natural disasters that further cripple agricultural output. The tying down of such large numbers of people in such low-productivity activity entails a high-opportunity cost as it denies the country of the services of a large pool of labor that could otherwise have been deployed elsewhere in the economy in productive activities. The recommendation to African governments to de-regulate

their agriculture and eliminate subsidies has done untold damage to African agriculture that has persisted till today and left the continent facing perennial food crises and dependent on food aid.

2.4 Trade Liberalization

Trade liberalization has also been an important plank of BWI policy advice to Ghana and other African countries, and reflects a core mandate given to the BWIs at their inception after the Second World War. The policy comes in the form of elimination of import quotas and reduction in tariffs, ostensibly aimed at opening up African economies to the external world. This policy advice is rationalized in terms of the incentive it provides to domestic producers to be competitive and also as being in the interest of consumers in increasing their choices and enabling them to benefit from more competitive prices.

However, under the policy of trade liberalization, domestic African industries have been stunted by their inability to compete with cheaper imports—which in many cases enjoy direct or indirect home subsidies. Imposition on Africa of trade liberalization—and elimination of state support for domestic industries—has contributed to the stagnation and, in some cases, demise of the continent's potentially-viable infant industries, perpetuating its dependence on imports and crises in its balance of payments. In Ghana, as Table 4 below shows, merchandise export receipts increased 4.4 times during the three decades from 1980 to 2009, while merchandise import payments increased 7.2 times. As a result, the merchandise trade deficit ballooned over the period. These trends are likely to hold for many other African countries. The substantial lagging of export receipts behind import payments, and the attendant widening of trade deficits, meant looking for additional resources to finance the gap, including through borrowing, which increases the continent's debt burden and undermines its development.

As a result of trade liberalization, export growth—the engine of economic growth in South East Asia—and economic diversification have been stifled in Africa, leaving the continent dependent on primary exports that have perpetuated its underdevelopment and external dependency. Many industrial and emerging market countries are known to have used protectionism, regulation, and subsidies to promote their domestic industries. Therefore, for the BWIs to impose on Africa free trade—and elimination of all forms of subsidies to domestic industry—seems ludicrous and pretentious, to say the least.

Free trade, in principle, should be beneficial to all parties involved, while trade restrictions and other distortionary practices could be harmful. There has however been no progress in reaching international agreements on free-trade reforms. The global trading system in its current form is unfavorable to African countries in several respects and perpetuates their underdevelopment. Many of these countries export largely primary commodities, from cocoa to tea, cotton, sugar, and

Table 4: Ghana: Merchandise Trade, 1980-2009

Year	Merchandise Exports	Merchandise Imports	Merchandise Trade Balance
1980	1,258.0	1,129.0	129.0
1981	1,065.0	1,106.0	-41.0
1982	874.0	705.0	169.0
1983	1,158.0	1,248.0	-90.0
1984	528.0	608.0	-80.0
1985	617.0	866.0	-249.0
1986	863.0	1,046.0	-183.0
1987	977.0	1,156.0	-179.0
1988	1,009.0	905.0	104.0
1989	1,018.0	1,273.0	-255.0
1990	897.0	1,205.0	-308.0
1991	617.0	1,055.0	-438.0
1992	1,252.0	2,169.0	-917.0
1993	974.0	2,575.0	-1601.0
1994	1,425.0	2,108.0	-683.0
1995	1,724.0	1,906.0	-182.0
1996	1,669.0	2,108.0	-439.0
1997	1,635.0	2,326.0	-691.0
1998	1,795.0	2,563.0	-768.0
1999	1,720.0	3,480.0	-1,760.0
2000	1,671.0	2,973.0	-1,302.0
2001	1,716.0	3,154.0	-1,438.0
2002	1,850.0	2,720.1	-870.1
2003	2,324.3	3,210.2	-885.9
2004	2,450.0	4,073.9	-1,623.9
2005	2,802.2	5,347.3	-2,545.1
2006	3,726.7	6,753.7	-3,027.0
2007	4,194.7	8,061.3	-3,866.6
2008	5,269.7	10,268.5	-4,998.8
2009	5,500.0	8,140.0	-2,640.0

Source: *World Development Indicators (2010); World Bank*

Note: *Data in current US$ million*

minerals—largely as a consequence of their adherence to the notion of "global division of labor." By design, these products are priced in international market centers located in developed countries, with African countries being price-takers in these markets. The common experience has been high instability in these prices, with generally long periods of deterioration. A close look at African (non-oil) export earnings indicates that they have not increased significantly all these years, even as volumes have increased. The irony is that even as African countries try to increase their efforts to

produce more of their exports, they often face a glut on the world markets and consequent depression of prices of their products. On the other hand, manufactured goods produced by developed countries are priced by these countries themselves, and their prices have generally been on an upward trend. Thus, you find a situation where African countries are paying more for their imports, with incomes that are not increasing commensurately, thereby making them worse off. Developed countries, on the other hand, continue to increase their incomes and get richer.

2.5 Liberalization of Financial Markets

The liberal policies prescribed by BWIs are extended to the financial sector. Here, African countries are prevailed upon to liberalize their financial systems, including through withdrawal of state ownership, opening up the sector to entry by new institutions, and liberalization of interest and exchange rates.

Admittedly, state banks may be inefficiently run, they may be subject to official interference, and they may incur fiscal costs. Financial regulation that enforces low interest rates may lead to “financial repression,” to the extent that it may discourage savings and loans for investment. Credit quotas may lead to inefficiency in resource allocation. And regulated exchange rates may result in misallocation of foreign exchange.

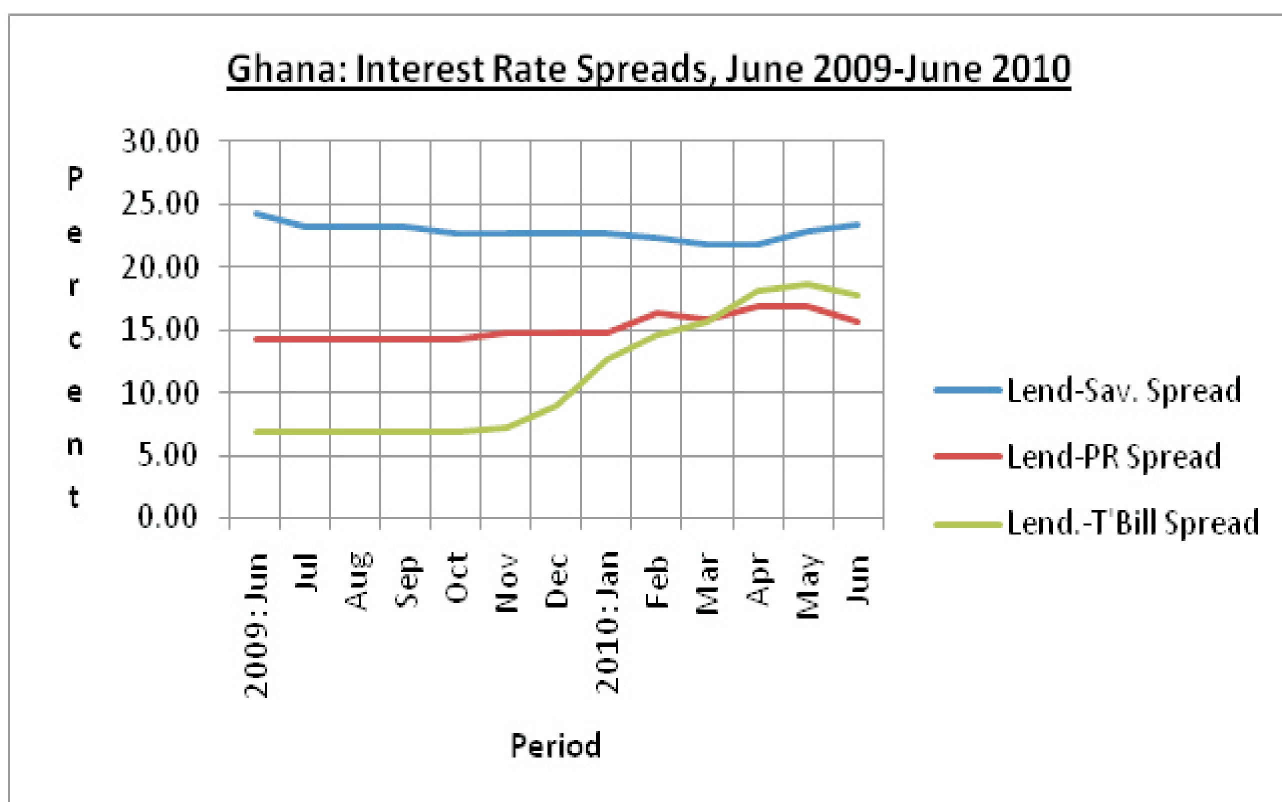
However, wholesale liberalization of African financial systems may be counter to promoting intermediation in strategic sectors of the economy and harnessing the financial sector's potential to support economic development. Liberalization may “disenfranchise” borrowers deemed to lack credit worthiness by banks. In Ghana and other African countries, this constituency includes a large informal, micro-enterprise sector vital for long-term growth. In Africa, where the informal sector remains large and small-scale businesses—individually- or family-owned—abound, microsector intermediation is critical to enterprise development. In the circumstance, deregulation of the financial sector removes much-needed state support to these businesses, with detrimental effect on economic growth. While financial regulation could inhibit integration of the domestic financial system into the global financial system, total deregulation may also increase systemic risk of crisis, in the face of experimentation with new products and liberalized financial flows. Removal of state ownership in the financial sector through privatizations often leaves the rural and informal sectors unserved by the new private owners of financial institutions for “economic reasons.”

In Ghana, liberalization of the financial system, including privatization of state banks and admission of new banks into the industry, has not generated the expected competition or efficiency. Inefficiency and operating costs have remained high in the industry. There has been an overconcentration of banks in urban areas where competition for a limited pool of financial resources and human capital has increased banks' costs. High inefficiency and operating costs have led to high lending rates and

large spreads. Lending rates go up to 30 percent currently, whereas deposit rates could be lower than 10 percent. Lending-deposit rate spreads are in excess of 20 percentage points (See Table 5). Collusive practices in an oligopolistic market have also been behind the high lending rates and large spreads. There is no incentive or motivation for banks to offer competitive interest rates on deposits and loans in such a market. Banks tend to match the actions of their peers in setting interest rates and other fees and charges. Even in spite of alleged high levels of non-performing loans (NPLs), banks continue to post high profits, suggesting that high lending rates and large spreads are artificial and orchestrated. In general, in spite of liberalization, the Ghanaian and African financial systems have remained an inefficient, oligopolistic, high-cost industry unable to provide adequate intermediation and to support growth of the economies as expected.

Table 5 & Chart 1 **Ghana: Interest Rate Spreads, June 2009-June 2010**

Period	Lend-Sav. Spread	Lend-PR Spread
2009: Jun	24.25	14.25
Jul	23.25	14.25
Aug	23.25	14.25
Sep	23.25	14.25
Oct	22.75	14.25
Nov	22.75	14.75
Dec	22.75	14.75
2010: Jan	22.75	14.75
Feb	22.38	16.38
Mar	21.83	15.83
Apr	21.83	16.83
May	22.83	16.83
Jun	23.38	15.63



Regarding the foreign exchange market, liberalization of exchange rates in African countries may be beneficial in supporting monetary policy and in helping to absorb shocks to the economy. However, liberalization has led in most cases to perpetual depreciation of African currencies. In Ghana, the *cedi* has lost almost 98 percent of its value since it was "floated" in 1983. The continued depreciation of African currencies is due to the persistent gaps between supply and demand for foreign exchange and the relative high cost structures in Africa. Perpetual exchange rate depreciation has been a source of inflationary pressure in many African countries and has led to devaluation of their real incomes.

In general, liberalization of the financial sectors in African countries has not generated expected financial intermediation and financial deepening. Low competition, inefficiencies, and high operating cost have prevailed that have been reflected in the high cost of credit, which has constituted a stranglehold on economic growth.

2.6 Macroeconomic Retrenchment

In the name of stability, BWIs almost invariably prescribe macroeconomic retrenchment, involving fiscal and monetary restrictions, to African countries often characterized by large economic and financial imbalances and "overheated economies." But, macroeconomic entrenchment is also consistent with neo-liberal ideology to reduce the size of the state in the economy and to create space for the private sector.

Fiscal retrenchment usually entails cuts in spending and reduction of budget deficits. The key casualties of fiscal retrenchment, however, are usually development and social spending since current expenditures tend to be more entrenched and protected. Fiscal retrenchment has inhibited the development of African physical and human capital. A large deficit in African infrastructure has persisted to today and constitutes one of the important constraints to private sector investment and growth. Also, low investment in African human capital development has led to administrative and institutional capacity limitations, a key constraint to economic management, growth and development.

Fiscal retrenchment policies prescribed by the BWIs aimed at reducing budget deficits often involve increases in taxes. Here, indirect taxes, including VAT or an equivalent sales tax, tend to be the prime candidates for hikes. This is probably because these taxes are easier to levy and collect. As a result, however, indirect tax rates have been relatively high in many African countries, with VAT rates, for example, going up to 17 ½ percent and beyond in many countries. At the same time, direct taxes have lagged behind, due, among others, to their narrow base in the face of a large untaxed informal sector, spate of exclusions and exemptions, widespread evasion, lack of enforcement and corruption. As Table 6 shows, with the exception of South Africa, African countries (represented here by Ghana, Mauritius, and Senegal) have tax structures that stand apart from that of Malaysia, a SEA country.

Table 6: Direct and Indirect Taxes in Selected Countries, 1980-2008 (% of GDP)

	GHANA		MALAYSIA		MAURITIUS		SOUTH AFRICA		SENEGAL	
Year	Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect
1980	2.0	4.9	10.1	12.1	4.8	15.9	12.5	6.3	6.9	18.8
1981	1.8	4.2	10.4	11.0	4.7	15.0	12.2	6.7	6.0	15.4
1982	1.7	3.4	10.0	9.7	4.2	15.6	12.4	7.5	5.3	13.9
1983	1.0	3.6	10.8	10.6	4.0	17.2	12.6	7.5	5.6	13.8
1984	1.5	5.1	10.4	9.9	3.8	17.3	12.7	8.2	5.1	11.5
1985	2.2	7.3	11.7	9.4	3.3	17.4	13.7	8.9	4.8	11.7
1986	2.8	9.4	11.9	8.3	3.4	18.0	13.5	8.7	4.8	11.9
1987	3.2	9.5	8.0	7.4	3.9	18.3	13.2	8.9	4.7	11.6
1988	3.9	8.4	8.1	7.8	4.4	18.4	13.0	9.7	4.0	12.6
1989	3.2	9.1	7.4	8.4	4.9	18.1	13.6	11.4	4.1	13.0
1990	2.9	8.6	8.7	9.1	5.1	17.8	13.7	10.3	5.2	16.1
1991	2.6	10.6	9.8	9.3	4.9	16.9	13.8	9.6	5.4	17.9
1992	2.2	8.6	10.2	8.9	4.6	16.2	13.1	8.6	5.9	19.3
1993	2.8	10.3	9.9	8.6	4.1	16.0	12.8	10.2	6.7	20.6
1994	3.3	12.9	10.3	8.9	4.0	14.3	13.0	11.0	5.0	17.8
1995	3.5	11.1	10.2	8.5	4.1	12.8	12.9	10.9	5.3	16.8
1996	3.8	11.3	10.2	8.4	4.2	13.1	13.3	9.1	5.0	17.2
1997	4.3	10.4	10.8	8.2	4.0	13.7	13.6	8.9	5.2	17.9
1998	4.4	11.4	10.6	5.4	4.0	14.0	14.5	9.0	5.2	17.7
1999	4.5	10.4	9.1	6.0	3.8	14.4	14.5	8.8	5.3	18.0
2000	5.2	11.1	8.2	5.1	3.7	14.2	13.4	9.1	6.4	19.1
2001	5.6	11.6	11.9	5.5	3.7	13.0	13.9	9.2	6.1	19.7
2002	5.7	11.8	11.6	5.9	3.7	13.6	14.3	9.1	6.6	22.7
2003	7.4	14.0	10.3	5.2	3.8	14.4	13.8	9.4	6.9	20.4
2004	6.6	15.1	10.3	4.9	4.1	14.9	14.1	10.4	7.1	20.5
2005	6.7	15.1	10.2	5.2	4.0	13.8	15.1	11.0	7.2	20.2
2006	6.2	15.0	10.7	4.4	5.1	13.5	15.6	11.4	7.3	20.5
2007	6.7	15.2	10.8	4.0	5.9	14.1	16.3	11.1	7.2	20.2
2008	7.1	14.9	11.1	4.2	7.3	13.7	16.3	9.9	-	-

Sources: *All data on Africa are sourced from the World Bank' Africa Development Indicators, 2010*

Malaysia is sourced from Monthly Statistical Bulletin (October 2010); Central Bank of Malaysia

Whereas direct tax ratios in the African countries are lower than indirect tax ratios, the situation is the opposite in Malaysia where direct tax ratios are higher and which should be the norm.

In Ghana and many other African countries, the petroleum sectors, in particular, have been heavily taxed on BWI advice to the extent that fuel prices are as high as and may, in some cases, even exceed those prevailing in America and Europe. For African countries where incomes are much lower and where many are oil producers, while we are not calling for state subsidies, the exceedingly-high tax-

propped fuel prices are an unnecessary burden on consumers and a drag on economic growth. African countries are invariably encouraged by the BWIs to use foreign resources for development. Because of perceived high political and economic risks, FDI flows to Africa have been relatively low. In addition to grants, Africa relies on concessional and non-concessional loans from the BWIs and other multilateral, bilateral, and commercial lenders. Such borrowing has escalated African foreign indebtedness to levels that entail high servicing costs and deprive priority development and social sectors of needed resources. Debt relief under the Highly-Indebted Poor Countries (HIPC) and the Multilateral Debt Relief (MDR) initiatives reduced most poor African countries' debts substantially through 2006. Since then, however, many have gone up on their debts as they borrowed to push their development. A major failing of BWI policy advice has been the lack of focus on the development of African domestic capital markets as potential sources of financing for the continent's development.

Thus, on the BWIs' watch, Africa's fiscal systems have remained constrained by revenue and expenditure weaknesses. In general, revenues have been stagnant and have constrained expenditures, including those in vital areas. Meanwhile, domestic capital markets have remained undeveloped and have been unable to provide needed resources for public spending. The domestic banking systems have provided most of the needed public financing in addition to external borrowing. While the former has been inflationary and added to the domestic debt, the latter has escalated African foreign indebtedness with high servicing costs.

Monetary retrenchment prescribed by the BWIs usually entails credit restrictions and interest rates increases. This is often aimed at fighting inflation, which tends to plague African economies stepping hard on the development accelerator amid production/supply constraints and bottlenecks. The effect of such retrenchment is the high cost of credit which stifles investment and economic growth, compounding the effects of fiscal retrenchment mentioned above. Often, BWI policies tend to restore macroeconomic stability to African economies. But, although this may be beneficial to long-term sustainable growth, it often comes at the cost of output and employment losses in the short-term.

Since most countries usually have a series of short-term economic programs with the BWIs in response to bouts of economic instability, there is not enough anecdotal evidence pointing to the long-term growth benefits of such programs. Indeed, the evidence from the CFA countries with monetary unions and more stable economies shows that these countries have not had any impressive growth all these years. However this evidence in and of itself, does not suggest that the stabilization policies have led to low growth, since failure to undertake complementary structural reforms could also slow down growth.

2.7 Liberalization of Product Markets

In line with their free-market ideology, BWIs recommend liberalization of product markets in Africa,

Table 7: Ghana: Wage Trends, 1980-2009

Year	Daily Minimum Wage (nominal GH¢)	Daily Minimum Wage (real GH¢)	Nominal Daily Min. Wage Index (1980=100)	Real Daily Min. Wage Index (1980=100)
1980	0.0012	0.0064	100	100
1981	0.0012	0.0030	100	47
1982	0.0012	0.0024	100	38
1983	0.0025	0.0023	208	36
1984	0.0035	0.0023	292	36
1985	0.0070	0.0041	583	64
1986	0.0090	0.0042	750	66
1987	0.0113	0.0038	942	59
1988	0.0146	0.0037	1217	58
1989	0.0170	0.0035	1417	55
1990	0.0218	0.0033	1817	52
1991	0.0414	0.0052	3450	81
1992	0.0460	0.0053	3833	83
1993	0.0560	0.0051	4667	80
1994	0.0790	0.0058	6583	91
1995	0.1200	0.0055	10000	86
1996	0.1700	0.0054	14167	84
1997	0.2000	0.0049	16667	77
1998	0.2000	0.0043	16667	67
1999	0.2900	0.0055	24167	86
2000	0.4200	0.0064	35000	100
2001	0.5500	0.0063	45833	98
2002	0.7150	0.0072	59583	113
2003	0.9200	0.0073	76667	114
2004	1.1200	0.0079	93333	123
2005	1.3500	0.0082	112500	128
2006	1.6000	0.0088	133333	138
2007	1.9000	0.0094	158333	147
2008	2.2500	0.0096	187500	150
2009	2.6500	0.0095	220833	148

Source: *Daily minimum wage is sourced from Bank of Ghana*

Note: *Monthly minimum wage is obtained by multiplying daily min. wage by 27 days.*

generally involving deregulation of prices of goods and public services. This policy advice is rationalized in terms of the greater efficiency in allowing market forces to allocate resources to production and consumption. In principle, this sounds all well and good. But, in practice, especially in African countries with substantial production bottlenecks, a producer/sellers market often reigns supreme with consumers perpetually at the receiving end as price-takers.

Another problem with universal liberalization of prices is that it does not discriminate between consumers of different economic and social standings. It may not also distinguish between the type of goods—whether luxuries or necessities. As discussed in Section 3.7 below, discriminatory pricing may sometimes be necessary to ease the burden on the poor.

As regards public services, many producer/supplier "costs" that are reflected in final deregulated prices are often riddled with inefficiencies that are passed on to consumers. This aberration holds sway particularly in the pricing of utilities. These services are riddled with unacceptably-high inefficiencies leading to high operating costs. These inefficiencies arise from high generation costs, high transmission/distribution costs, thievery by consumers, low bill enforcement, and corruption. While liberalized pricing would allow producers/suppliers to recover their "costs," because these "costs" include substantial inefficiencies, it comes at a price to the customer.

A further problem with BWI policy to liberalize the product market is that it often ignores the labor market. The BWIs are not known to be strong advocates of liberalized "wage pricing." But, if workers have to face a liberalized product market, where prices are dictated by market forces, but upwardly-rigid wages, then they are denied fairness and equity. As Table 7 above shows, in Ghana, whereas the daily nominal minimum wage increased by over 220,000 percent during the three decades,1980-2009, the real wage increased by only 48 percent. This is because most of the nominal increases were eroded by price increases in the context of more-liberalized product markets.

3. Interventions Required to Mitigate the Costs of "Washington Consensus" Policies

There is a need to manage economic liberalization policies prescribed by the BWIs to African countries under the WC framework so as to correct their market failings and mitigate the associated costs. The response has to be specific to each type of policy and has to be tailored to the long-term development interest of African economies. A case must be made for each policy response. The problem is that often African governments go to the negotiation table ill-prepared and, therefore, ready to accept whatever measures the BWIs throw at them. If African governments put their case forcefully across as to why a particular BWI policy is flawed in part or in whole, or why a particular response is necessary, they may not win it all, but they would be surprised at how much they would gain as a consequence.

3.1 Diversification of Domestic Production and External Trade, Not "Dogmatic Specialization"

The doctrine of comparative advantage is not only outdated but also irrelevant and unhelpful to the economic transformation and development of Ghana and other African countries. It should, therefore, not be swallowed wholly.

Diversification of the production base of any economy is critical to minimize its vulnerability to shocks and, in particular, to reduce instability in export earnings. While initially continuing to give attention to products where Ghana and other African countries have traditional comparative advantage, it is equally important that these countries actively promote more viable products in the manufacturing sector.

The SEA countries did not buy the doctrine of comparative advantage "hook, line and sinker" the way Ghana and other African countries are being prevailed upon to do. This would have condemned the SEAs to producing perpetually primary commodities. Primary products are sort of "dead-end products," whose prices are determined and continuously depressed in world markets, with no consideration whatsoever for their production costs. The SEAs prudently and smartly diversified their production base away from primary products into manufactures that fetched lucrative prices on world markets and brought them higher benefits in terms of economic growth and enhanced living standards. This is a great lesson for Ghana and the rest of Africa.

The case for industrialization as a pre-condition for development cannot be overstressed. No developing country can afford to continually import its requirements of consumer goods, intermediate goods, and capital equipment because of its limited foreign exchange earnings from the

export of primary products. Like other developing countries, Ghana and other African countries have to begin to produce part of their requirements themselves.
It is not accidental that developed countries are invariably industrialized, given the higher value-content and better performance of industrial goods in world markets. Indeed, development without industrialization is almost inconceivable. Industrialization, however, cannot be conjured overnight. One has to acquire a certain degree of technical competence to industrialize. Also, industrialization requires a careful and painful process of utilizing existing comparative advantage in the primary sector to promote linkages with secondary and tertiary industries, i.e. fully exploiting the value chain. The way to promote Ghanaian and African industrialization is to link it to agriculture, begin to process agricultural products, and promote small-scale industries. The industries should be fully integrated from the production and extraction of raw materials to local processing and fabrication.

3.2 Selective—Not Universal—Privatizations

Given that some privatizations may encounter difficulties and may not yield desired results in Africa, we caution against wholesale privatization of SOEs in the context of BWI programs. The best approach is to undertake selective privatizations using assessments based not only on economic benefits and costs but also on social benefits and costs. It is recognized,, however, that social benefits and costs may be more difficult to quantify and their assessment may sometimes include an inevitable element of subjectivity.

The importance of the private sector to economic growth cannot be denied. However, even the successful SEAs that Africa would want to, and should, emulate, did not pursue wholesale privatization of their domestic industries. They rather kept those industries that they deemed strategic to the economy under state ownership and control. These industries were assisted with subsidized loans and other favorable government guarantees, especially those in the export sector. Meanwhile, the SEA countries benefited from success contagion—success breeding success. Korea and Taiwan looked up to Japan and benefited from its success. Malaysia, Indonesia, and Thailand in turn looked up to Korea and Taiwan and benefited from their success. In Africa, other countries should look up to the more successful ones like South Africa, Seychelles, Cape Verde, and Botswana and emulate their experiences.

Some SEAs emphasized import-substitution and protection, while others used indicative planning and moral suasion to get the private sector to behave the way the state wanted. Parastatals were often part of the landscape. The economic model regarding state and private roles varied from country to country. However, the bottom line was that all governments recognized the crucial role of the private sector as a partner rather than a rival. The way forward for Africa is for the state to take an active role in facilitating the private sector to be the engine of growth.

3.3 Targeted State Subsidies, Not Their Total Elimination

The SEA countries did not fully swallow the BWI prescription to eliminate state subsidies. They provided subsidies, including in the form of low-interest credit, and other favorable government guarantees to domestic industries deemed to be strategic, especially those in the export sector. These practices enabled infant industries to blossom into mature ones, including conglomerates. Africa cannot also afford to eliminate all state subsidies, but must follow the SEAs example.

Many SEAs had an activist industrial policy: some used taxes and subsidies to shift the incentive structure in favor of industrial development. Africa should follow the example of SEA in promoting its industrialization, which is indispensable to the continent's development. In this regard, financial institutions should be promoted to provide affordable credit to industry. To avoid crystallization of large contingent liabilities and minimize fiscal risks, such institutions should normally be situated outside the Central Bank. In Ghana the NIB model is a good idea in supporting industrial development. It should be supported to provide subsidized credit, including to SMEs. To be able to carry out its mandate effectively, the bank's management would need to be appropriately strengthened. The state should also support industry with infrastructure, particularly energy, water, roads and telecommunications.

Africa should also follow the SEAs example in developing the continent's agriculture. Agriculture development and export promotion were cornerstones of SEAs policies. The SEAs invested heavily in increasing agricultural productivity through support for rural infrastructure, research and extension services, fertilizer subsidies and price support systems. Rapidly increasing agricultural productivity helped establish the basis—through lower food costs and exports—for the later export-led-growth stage.

Therefore, contrary to “neoliberal” policy advice, African governments should intervene directly to promote their agriculture, including: by providing subsidized inputs, such as seeds and fertilizers; providing irrigation systems to reduce dependence on rain-fed agriculture; providing storage and preservation facilities to ensure year-round availability of food; ensuring availability of markets for agricultural produce; promoting financial institutions outside the central bank, such as the Agricultural Development Bank (ADB) in Ghana, to provide affordable credit; providing technical services to increase productivity and crop yields and promoting large-scale and mechanized farming. We want to single out technology as probably the factor that would most revolutionalize African agriculture. It is because of lack of technology that African agricultural productivity is so low. Crop yields per acre in Africa are only a fraction of comparative yields in industrial countries or in SEA countries. Given what technology can achieve in agriculture and its potential to banish hunger in Africa and elsewhere in the third world, it is inconceivable that the development community has continued to shun this approach and still recommends peasant farming in Africa.

Here, we are pleased to draw on the caution and sound advice given by Professor King (a prominent member of the British Science Association), who has made one of the most forceful arguments for technology-driven development of African agriculture. He has strongly voiced his frustration in what he calls an “anti-science, anti-technology” approach to African agriculture, which he blames for the continent's continued impoverishment. He notes that Western-sponsored traditional farming at the expense of modern scientific agriculture is impoverishing Africa, adding that anti-science attitudes are denying the continent access to technology that could improve millions of lives. Blaming the slow pace of African development on Western influence, he argues that the focus on non-technological agricultural techniques of farming has played a big part in the impoverishment of the continent. He asks why the continent has not joined Asia in the big green revolutions that have taken place over the past few decades and maintains that the suffering within the continent is largely driven by attitudes developed in the West which are somewhat “anti-science, anti-technology.” He argues that solutions will only emerge if full use is made of modern agricultural technology methods and that championing small-scale farming and traditional knowledge in Africa—a system that existed in the UK hundreds of years ago—is not only short-sighted, but also an extremely inefficient process that will not lead to the economic development of Africa.

The case for “technology-driven development” of African agriculture could not have been made more forcefully than Professor King has. Unfortunately, Africa's development partners, including the BWIs, continue to support the one-peasant, hoe-and-cutlass, and rain-fed system of farming in Africa that has continued to produce low yields and left the continent vulnerable to food shocks, impoverished, and dependent on food aid.

A major beneficial effect of increasing food productivity and supply through improved technology and other state interventions is that it will drive down prices and profits and drive some producers out of the market to seek other activities where they can contribute productively to the growth and development of the entire economy. Therefore, agriculture should remain a critical vehicle for Africa's development. It is important, however, that agricultural productivity is quickly increased through provision of high-yielding seeds, fertilizers, extension services, and mechanization—as well as supportive infrastructure—to release the vast resources tied to the sector to other productive areas in the economy. And the state must be an active—not passive—agent for this evolution.

3.4 Selective Trade “Protections”, Not Total Liberalization

Just as the SEA countries did not accept wholesale privatization of their industries or completely eliminate state subsidies, they did not also swallow the prescription of total deregulation of their external trade. Rather, they were protective of their international trade through the use of both non-tariff and tariff instruments in order not to expose their domestic industries to excessive competition from imports. This is a lesson that Africa needs to emulate if it is to develop a thriving industrial

sector, which is indispensable to the continent's long-term growth and development.
In this respect, it will be fair for African countries to adopt selective quotas to protect their strategic industries. Such trade restrictions will be even more justified in cases where there is evidence of "dumping," where it is clear that imports are benefitting from internationally-unacceptable and other distortionary trade practices from home countries. Also, it will be appropriate to use selective tariffs to limit unacceptable competition from imports.

African countries must also actively engage trade-promotion instruments to promote their exports. Developed countries use various schemes to support their exporters. The SEAs also followed aggressive state policies to develop their exports which have become their engine of growth. Actively seeking external markets for their exports and providing marketing infrastructure and facilities to support domestic industries are a fair game for African countries.

African countries must also insist that developing countries do their part in promoting international trade. In this respect, Africa must intensify its call for fair, balanced, and mutually-advantageous international trading arrangements, using the WTO and Doha Round platforms.

3.5 "Regulation" of Financial Markets, Not Their "Unregulated Liberalization"

African countries should intervene in their financial markets to mitigate the costs brought on by BWI-recommended de-regulation, including, in-access to banking services by sections of the populations, borrower disenfranchisement, high cost of credit, and low efficiency and competition.

As a priority, it is important to ensure that as much of the population as possible have access to banking services. If privatization of state banks is found necessary and the new managers decide to close rural branches for economic reasons, the void created should be filled. Here, rural banks may be the answer. Further, to mobilize savings from rural and informal sectors, the previous postal savings system in Ghana, for example, was a good vehicle, and consideration should be given to reinstating it. In fact, Japan, one of the most capitalist countries in the world, found it necessary to operate what was deemed the largest postal savings system for centuries, carrying out its privatization only as late as 2007.

There is also a need to ensure that industries, especially small businesses, and agriculture have access to affordable credit that may not be available in a liberalized system. The answer here is to institute subsidized credit schemes with official guarantee. As we have argued above, to reduce the incidence of contingent liabilities and fiscal risks, separate institutions outside the central bank should be set up to administer the credit guarantee schemes. In Ghana, the National Investment Bank (NIB) and Agricultural Development Bank (ADB) are good vehicles for delivering this service. Their

operations may, however, have to be streamlined and strengthened for them to carry out their mandates more efficiently and effectively. There is a need to support microfinance schemes to provide financing facilities to small- and medium-scaled enterprises (SMEs) and the rural and informal sectors that become victims of orthodox banking under liberalization policies.

It is known that many industrial and emerging-market countries used their domestic financial systems to support development of their industries through credit quotas, low interest rates, and other subsidies. In particular, intervention policies in the financial sector were used extensively to support microenterprises, which were otherwise shunned in credit allocation by the formal financial systems. These microenterprises or small firms are known to have been the bedrock of Japanese industrial might, for instance. State-directed lending quotas and prices were used to promote industrial development not only in Japan, but also in many parts of Europe, East and South East Asia, and Latin America.

High lending rates, large spreads, and other high charges and fees that have been present in African financial systems in the wake of deregulation need to be addressed as a matter of urgency as they are stifling the continent's growth. They are the result of inefficient, oligopolistic financial systems with no incentive to compete, but are highly profitable. Appropriate regulation is necessary to address these market failings without necessarily resorting to controls that are generally undesirable. The 2007-08 global financial crisis was considered as having been precipitated to a great extent by relaxed regulation of financial markets and was met with the most sweeping regulation in even some of the most capitalist countries. As a developing continent, Africa needs to regulate its financial systems even more and ensure that they serve as an instrument of development.

In the foreign exchange market, despite problems associated with liberalization, we do not believe that fixing the exchange rate is the answer. This is because without supportive measures, depreciation will still occur, this time showing up on the black market. Measures required to buttress the exchange rate in African economies include those geared to increasing export earnings, reducing costs, and increasing the economies' competitiveness. Disciplined macroeconomic policies would also reduce demand pressure on foreign exchange.

3.6 Macroeconomic "Restructuring," Not Necessarily "Universal Retrenchment"

Given the costs associated with outright macroeconomic retrenchment, including cuts in development and social spending, high cost of credit and potential economic stagnation, an alternative approach is necessary. The emphasis should rather be on macroeconomic restructuring that ensures the achievement of the same goal of economic stability but supports growth as well.

African fiscal systems need to be restructured to remove the binding constraint on expenditure imposed by stagnant revenues. Revenue systems have got to be restructured to increase direct tax collections and not just increase indirect tax rates, which tend to be already high and less progressive. This calls for expanding the direct tax base to rope in potential taxpayers, including the self-employed and those engaged in informal activities, who mostly remain outside the tax net. In the case of Ghana, as is probably the case in many other African countries, property tax makes minimal contribution to the budget, although it has a huge potential, given the numerous sprawling mansions in the main cities and other urban areas. It has been suggested that lack of effort in this area may reflect a reluctance of the political elite, many of whom own these properties, not to pay their due share of taxes. Increasing the revenue effort also requires strengthening tax administration, reducing the spate of rebates and exemptions, and enforcing compliance.

Expenditure should also be restructured through reprioritization. This requires reducing non-essential spending to create room for priority spending. There is often plenty of room to reduce administrative budgets and other nonessential spending in favor of development and social spending. What is often lacking is the political will to do this. Africa cannot develop until it spends sizable budgets on development of its physical and human capital, just as the SEAs did. Ghana and many other African countries have large public sectors that consume a disproportionate share of tax revenue. Here also, the necessary political will should be mustered to undertake needed reforms that will ensure leaner, more productive, and better-remunerated public sectors. These measures should go hand in hand with others geared to reducing waste and increasing efficiency in public spending. Often, announced expenditures on some sectors do not elicit expected results and outcomes, suggesting misapplication of funds and/or inefficiencies in spending.

Monetary policies in many African countries tend to be constrained by, and have to follow the dictates of, more aggressive fiscal policies. Invariably, tight monetary policies that restrict credit to the rest of the economy and hike interest rates and, therefore, inhibit growth, are needed to contain inflation often attendant to expansionary fiscal policies. Thus, getting the fiscal house in order through the restructuring noted above, should allow the pursuance of more pro-growth monetary policies in African countries. As we note in Section 3.5 above, inefficiencies in banking systems and associated high cost of operations, together with oligopolistic practices, have been behind the high cost of credit in many African countries, with Ghana being a practical example. As recommended, regulation, not controls, is necessary to bring down the unacceptably high cost of credit.

African countries should also look inward to mobilize resources to support their development programs and reduce their dependence on unpredictable and burdensome external resources. Developing domestic capital markets should be a priority as a vehicle for mobilizing resources to fund infrastructure projects and projects and programs of corporations and municipalities.

3.7 "Regulation" of Product Markets and "Discriminatory Pricing," Not "Unregulated Liberalization"

In view of production and supply constraints and inefficiencies in Africa, it would be inappropriate to leave the prices of all goods and services entirely to the dictates of market forces, as this would be inimical to consumer interests. Rather, regulation of some prices, especially those of goods and services considered to be of critical importance in terms of their effect on general economic or social welfare, may be necessary to protect consumers from arbitrary pricing policies. This is particularly true of public goods and services, including, power, public health services, public education, postal services, and public transportation, which are used by the broad masses of the people. In these cases, appropriate regulatory bodies would be needed to arbitrate on what constitute genuine costs that may have to be recovered by providers to keep them viable, while protecting consumers from paying for inefficiencies embedded in the usually so-called "costs." This oversight is carried out even in capitalist countries.

Even when the prices of goods and services are liberalized in the name of allocative efficiency, there should always be scope for "subsidized pricing" of the kind of goods and services used largely by the poor. This is an acceptable means of providing a targeted social safety-net system. The range of goods and services which usually qualify for such consideration include: food staples used by the broad masses, rural energy and allied products, rural water, primary education, primary healthcare and public mass transportation. In other areas and at other levels, means-based pricing could be used in recognition of the rich-poor divide, although, admittedly, administration of such schemes is always a challenge.

Taxes may also be used to discriminate between luxury goods used largely by the rich and necessities used by the public at large, but more intensely by the poor. Excise taxes usually levied on "luxury goods" like tobacco and alcohol represent a classic example of price discrimination used against the rich. In the same vein, lower taxes may be levied on such items like wheat or flour, used in products heavily consumed by the broad masses.

When the product market is broadly liberalized, it may also be fair to give equal treatment to the labor market by permitting flexibility in labor pricing or wage setting. To avoid disadvantaging workers, wages should be allowed to be determined by supply of and demand for labor. This means allowing for negotiations between labor and employers to determine wage rates based on market conditions, including production costs, on the one hand, and labor productivity, on the other hand.

4. Conclusion

African countries receiving development assistance from the BWIs are usually prescribed neoliberal, "Washington Consensus" (WC) policies that underscore the superiority of the market and private enterprise, as against economic control systems and "statism." These policies include: specialization in production and trade; privatizations; elimination of state subsidies; trade liberalization; liberalization of financial markets; macroeconomic retrenchment; and liberalization of product markets. These policies are, however, associated with costs reflecting related market failures. If the continent's development is to be accelerated, African governments should directly intervene in their economies to correct the market failings and mitigate the socio-economic costs associated with WC policies.

The policy of "comparative advantage" or international division of labor prescribed by the BWIs to African countries, has the effect of stifling the continent's development. To break out of this "bondage"—and poverty—African countries should follow the SEAs example to diversify their economies and promote the continent's industrialization. Industrialization is indispensable to growth and development and African countries should pursue it aggressively, though in an orderly manner.

Universal privatizations prescribed by the BWIs often create monopolistic and oligopolistic industries, which do not only cost jobs but may also lead to price hikes. African countries should rather implement selective privatizations, keeping under state control industries they deem developmentally strategic, while strengthening their management systems. Private farming in Africa, based on the peasant system, is obsolete and unproductive. To increase yields and the scale of production, the state should facilitate large-scale, mechanized farming.

Total elimination of state subsidies recommended under the WC model has caused the demise of many infant, potentially-viable African industries. The right approach is to provide selective state subsidies, targeted to support these industries to mature. The state should also provide industrial and agricultural assistance in the form of subsidized credit, subsidized materials, tax incentives, technical support and other services.

Total trade liberalization under the WC approach exposes fledgling industries in Africa to competition from cheaper imports, many of which benefit from subsidies in their countries of origin. African countries should use both tariff and non-tariff instruments to "shield" their industries from undue competition from imports to enable them to blossom. Africa must also directly and aggressively promote its exports by providing all necessary support, the way the SEAs did. Africa must also strongly advocate for a mutually-fair and -beneficial international trading system.

BWI-sponsored total liberalization of African financial markets often reduces access to banking for many, particularly people in rural areas and the informal sectors. The cost of credit tends to skyrocket, leading to high business costs and the demise of many potentially-viable industries and projects. There is a need to increase access to banking in African countries. Critical economic sectors should be supported with credit quotas and subsidies. Central Bank intervention should be used as needed to regulate artificially-high lending rates and large interest spreads often attendant to oligopolistic and inefficient deregulated financial systems.

BWI-recommended universal macroeconomic retrenchment leads to costly budget cuts, tax increases, and high cost of credit, which stifle Africa's growth. “Macroeconomic restructuring,” rather, should be used to streamline and reprioritize expenditure, improve spending efficiency, and reform the tax system to broaden and deepen direct taxes and to strengthen tax administration. Fiscal restructuring and enhanced discipline will free monetary policy to support Africa's growth.

Universal liberalization of product markets prescribed under the WC model leads to a sellers' market, leaves consumers as price-takers and hurts the poor in Africa. The state should subsidize goods and services used largely by the poor as a kind of social safety-net system. Discriminatory taxes may also be used as an instrument to assist the poor.

The message of this paper clearly is that an unbridled application by African countries of BWI-prescribed free-market policies in consonance with the WC model, given the possibility of market failures in practice is misguided. African governments should identify the market failures associated with free-market policies and institute appropriately-directed policies to mitigate them. Some of the WC policies will have to be rejected outright because they may be anachronistic or do not serve the continent's long-term development interest. Other policies may have to be countered with interventions geared to addressing the market failures and costs associated with them.

THE INSTITUTE OF ECONOMIC AFFAIRS
A Public Policy Institute

P. O. Box OS 1936, Osu, Accra, Ghana. Tel: +233-302244716/307010714, Fax:+233-302-222313
Email:iea@ieagh.com
Website: www.ieagh.org