A STUDY OF OBSTACLES TO ECONOMIC DEVELOPMENT OF GHANA AND SOUTH AFRICA WITH PARTICULAR EMPHASIS ON INADEQUATE INVESTMENT CAPACITY

by

NOAH KOFI KARLEY

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Supervisor: Professor E. Katona

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DECLARATION

This is to declare that this dissertation is entirely my own work, both in conception and execution, and has not been previously submitted as a dissertation or thesis for any degree in any other University.

Signature: --

DEDICATION

To my parents.

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NOAH K. KARLEY
UNIVERSITY OF ZULULAND
KWA-DLANGEZWA

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SUMMARY

This study is about the problem of economic development of Ghana and South Africa which arises from the fact that these countries lack the needed investment capacity. As a prelude to the analysis of savings and investment patterns, attention was firstly given to the orientation to the study. Secondly, a theoretical study of economic development and under development was made with particular emphasis to the orthodox, political economy and "contramodernisation" approaches. Thirdly, intuitive and discriminate analytical procedures were used to distinguish economic from non economic obstacles to economic development of the countries under study.

The analysis of savings and investment patterns indicate that as a percentage to G.D.P. they are generally lower in Ghana than South Africa. Various reasons account for this state of affairs. Among others, it is found that poverty is rife among the people, especially in rural areas. It also emerged from the study that financial sector savings mobilization is poor. This performance is attributed to constraints such as underdeveloped financial infrastructure and lack of competition among financial institutions in Ghana. For South Africa, the unequal distribution of wealth and acts of violence and political instability continue to undermine private investment. Public sector savings for sometime has been negative. This arises from excess of government consumption over government revenues.

Several important conclusions emerged from the study, viz. that both countries are characterised by high rates of population growth which imposes strain on resources needed to provide basic facilities, that poverty is rife in both countries, and poor nutrition and lack of protection from preventable diseases resulted in high morbidity and relatively low life expectancy particilarly in rural areas, that Ghana and South Africa are both rich in terms of natural resources but natural wealth being produced is not

retained within the countries due to lack of funds and knowledge required to harness resources, necessitating a call for external assistance, that generally, social and economic infrastructure are restricted to urban areas in both countries and finally, that acts of violence and political instability is undermining investment prospects. This is more pronounced in South Africa than in Ghana.

Among others, it is recommended that rural restructuring to provide family planning and recreation centres, health centres, social amenities and jobs be planned and established. A foundation for re-orientating the entire education system toward the promotion of creativity, science and the acquisition of more flexible basic skills be established. This must involve the private sector. In an attempt to provide enabling environment to promote investment and economic development, it is recommended that prudent fiscal and monetary policies be established and governments to undertake comprehensive review of all legislations and administrative practices which affect commercial and industrial activities.

Finally, this dissertation attempts to draw a synthesis between theory and practice and to reflect on political stability upon which popular savings and investment aspirations can be developed.

OPSOMMING

Die voorafgaande studie adresseer die problematiek van ekonomiese ontwikkeling in beide Ghana en Suid Afrika, voortspruitend uit die feit dat die nodige beleggings kapasiteit afwesig is. Voorafgaande tot die analisering van besparing en beleggingspatrone word daar eerstens gefokus op die oriëntasie van die studie. Tweedens fokus die teoretiese studie van ekonomiese ontwikkeling en onderontwkkeling op die ortodokse politieke ekonomie en "kontramodernisasie" benaderings. Derdens is intuïtiewe en diskriminerende analitiese prosedures gebruik om onderskeid te tref tussen ekonomiese en nie-ekonomiese hindernisse met betrekking tot ekonomiese ontwikkeling in die voormelde state.

Met die analisering van besparings- en beleggingspatrone word aangedui dat, as 'n persentasie tot die B.B.P., dié patrone in die algemeen laer is in Ghana as in Suid Afrika. Daar is onder andere geving dat armoede allesoorheersend is onder die plaaslike bevolking, veral in landelike gebiede. Voortspruitend hieruit is daar ook gevind dat die finansiële sektor se besparingsmobilisasie swak is. Hierdie verskynsel word toegeskryf aan sekere inperkings soos onderontwikkelde finansiële infrastrukture en die afwesigheid van kompetisie onder die finansiële instellings in Ghana. Met betreffende tot suid Afrika word die ondermyning van kapitale beleggings toegeskryf aan ongelyke distribusie van rykdom, geweld en politieke onstabiliteit. Besparings in die openbare sektor was ook vir 'n geruime tyd negatief van aard as gevolg van die oorskryding van regeringsverbruik teenoor regeringsinkomste.

Verskeie belangrike gevolgtrekkings kan gemaak word soos dat beide state gekarakteriseer word deur hoë bevolkingsgroeikoerse wat spanning veroorsaak op hulpbronne, soos benodig vir voorsiening van basiese fasiliteite; dat armoede allesoorheersend is en dat swak voeding en afwesigheid van beskerming teen voorkomende siektes aanleiding gee tot hoë siektestof en relatiewe lae lewensverwagting, spesifiek in landelike

gebiede van Ghana en Suid Afrika; dat beide Ghana en Suid Afrika ryk is in natuurlike hulpbronne maar dat die natuurlike rykdom wat verkry word onthou word, vanweë die afwesigheid van fondse en nodige kennis wat noodsaaklik is; dat in die algemeen, sosiale en maatskaplike infrastrukture beperk is tot stedelike gebiede in beide state en laastens dat dade van geweld en politieke onstabiliteit beleggingsmoontlikhede ondermyn. Laasgenoemde is meer van toepassing op Suid Afrika as op Ghana.

Daar word dus voorgestel dat landelike herstrukturering, wat voorsiening sal maak vir rekreasiesentrums, gesondheidsentrums, maatskaplike geriewe en werksmoontlikhede, beplan en opgerig moet word. 'n Basis moet geskerp word vir die totale heroriëntering van die opvoedingstelsel wat gemik sal wees op bevordering van kreatiwiteit, wetenskap en verkryging van meer buigbare vaardighede. Die privaat sektor moet ook ingesluit word. Ten einde die omgewing ontvanklik te maak vir die bevordering van beleggings en ekonomiese ontwikkeling word dit aanbeveel dat verstandige fiskale en monetêre beleide daargestel word en dat die onderskeie regerings sal onderneem om wetgewing en administratiewe prosesse wat handel en industriële aktiwiteite beïnvloed, omvattend te her-evalueer.

Laastens poog die dissertasie om 'n sintese te trek tussen teorie en praktyk en om te reflekteer op politieke stabiliteit waarop populêre besparing en beleggingsaspirasies kan ontwikkel.

CHAPTER 1

ORIENTATION TO STUDY

This chapter focuses on the outline of this piece of work. It begins with motivation for the study. The statement, objective and scope of study followed in that order. Methods used in collecting data, information and materials are explained with the chapter by chapter arrangement and major limitations to the study briefly discussed in the last three sections respectively.

1.1 MOTIVATION FOR STUDY

Economic development has been unevenly distributed in the world. The development gap between African countries such as Ghana on one hand and those of North American and some European countries on the other is seen to be shockingly wide. After a visit to the United Kingdom in 1991 the author discovered that the development gap is not only wide but also increasing. Various approaches used to arrest development problems in Less Developed Countries (LDC's) have yielded lower than expected returns especially in Africa. In the quest for knowledge, this researcher realises the need to undertake the task of finding out the key obstacles to economic development in Africa.

1.2 STATEMENT OF THE PROBLEM

Tentatively, several problems hindering economic development in Africa can be identified. Economic and non-economic factors can be cited as obstacles to development. The problem is aggravated by over-population, insufficient resources, outmoded traditional and social patterns, inadequate savings and investment, and political instability. In spite of more than three decades of intensive development research and implementation of development plans, numerous problems still exist in the concept of development. In certain circles people even hold the view that answers to this problem are more inaccessible to the human sciences than ever before.[1] The lack of adequate investment capacity is believed to be the most crucial problem hindering economic development in Africa and this has been the emphasis of the study.

1.3 OBJECTIVE OF STUDY

Economic development policy involves identifying the obstacles to the level and kind of development desired. The problems stated above are not the same throughout all African countries but there are similarities as well as differences when countries are compared. However these problems are peculiar to L.D.C's as a whole. This study has been undertaken with dual purpose. In the first place, the study attempts to quantify the extent to which the inadequacy of investment capacity impeded economic development in Ghana and South Africa. The existence of this problem has been acknowledged but its severity can only be realised once the extent of its effect has been quantified. The relevance of theories of development is shown in the process of identification and quantification of economic development problem with regard to both savings and investments. The directive principles of policymakers and coordinated programmes of economic and social development, the impact of international organisations on economic development by means of foreign aid and the devastating effects of inadequate capital formation as key obstacle to development in the economies under review is also shown.

In the second place, after identifying the major problems, it is a further aim of this study to suggest ways and means that could be adopted to minimise

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[1] Van Nieuwenhuijze, C.A.O. Development begins at home. (Oxford Pergamon Press, 1982), p.1.

the effects of the problem on development. The word minimise has been used advisedly. There could be no talking of eliminating the present problem in its entirety.

1.4 THE SCOPE OF STUDY

Investigation of this nature requires that a wide range of activities be covered in order to achieve the set objectives. The nature of this study requires the author to trace certain information as far back as history could permit but much of the work concentrates on the past four decades of development history.

African countries are all developing economies and since it is impossible to cover all the countries, the study has been confined to Ghana and South Africa although the problem being investigated is by no means restricted to these countries. These countries are chosen as the field of study for the following reasons. Ghana is chosen not only because of the fact that most of the characteristics of developing countries can be found there but also that the country is being used as a "showcase" for Africa mainly by the International Monetary Fund (I.M.F.) and the World Bank in their campaign toward encouraging structural adjustment programmes.[2] On the other hand, South Africa has been in international isolation due to apartheid policies hitherto, as such, economic activities were mainly conducted on discriminatory lines creating a dualistic bipolar economy which is considered worth of study.

These two countries have similarities and differences with regard to capacity for economic development. Comparative study of this nature would provide useful knowledge for policy makers with development characteristics of this sort. It could be concluded that though the study shall be restricted to

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[2] Kapur, Ishan, Michael, T. Hadjmichael, Paul Hilbers, Jerald Schiff and Phillippe Szymczak 1991. Ghana: Adjustment and growth. (Washington D.C.: I.M.F., 1991), p.3.

Ghana and South Africa there is no likelihood that the nature of the problem would be different in other African countries. On the contrary, any findings made with regard to Ghana and South Africa would probably mutatis mutandis, apply in the other countries.

1.5 METHODOLOGY

This is a descriptive study. In the process of collecting data, information and materials, the methods include the following:

(i) the use of relevant books to expound existing views on development theories and models;

(ii) economic journals, news items from the press;

(iii) data and information from statistical documents in economic bureaux, finance and economic planning ministries, and relevant government departments on the subject;

(iv) information from IMF / World Bank Publications;

(v) data and information are both qualitatively and quantitatively analysed by using various statistical methods such as central tendencies, percentiles, distribution tables and other helpful methods for comparing figures.

The choice of these statistical measurements are made because they are both convenient and necessary for easy comparisons. Since development is a subjective phenomenon which can be comparatively studied by quantifying the relevant information available, these simple statistical instruments are used throughout the study.

1.6 PLAN OF WORK

This project is divided into five chapters. The materials in chapter 1 relates to the outline of the investigation, while chapter 2 is devoted to literature review. In this chapter, the nature of the problem as well as concepts and theoretical approaches to development are expounded. In chapter 3, a synthesis is drawn between theory and practice by analysing the economic growth and development processes of the two countries under study (Ghana and South Africa). In the last part the obstacles to growth and development are discussed. Chapter 4 deals with savings and investment patterns in the two countries on defined sub-headings. The last chapter forms conclusions and recommendations. General policy recommendations and suggestions (based on conclusions from the research) are made to the respective countries in particular and the developing world in general to be instituted in order to arrest the development problem and accelerate the wheels of development vehicle in their respective countries.

1.7 LIMITATIONS AND PROBLEMS TO THE STUDY

The study is limited mostly to the formal sector. It has not been possible to cover fully every aspect of the various sectors of the economies especially the informal sector on which no proper records are kept in most African countries.

The author is not given all relevant information when the concerned government and non-government institutions were contacted. Some agents were reluctant because of the sensitive positions they occupy in government which in any way is natural in view of the fact that they would not like to divulge information likely to tarnish the credibility of government. The whole project is expensive in view of the fact that the author was only able to compile and collate the necessary information and materials after travelling to different countries.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

The study of development is potentially one of the most creative areas in social science today, although at the level of theory, that potential has still largely to be realised. The study of development as we know today began in an era of optimism and growing prosperity for the advanced countries, and that climate is well reflected in the subjects early concern for evolution and stability within a short space of time. However, it has also fathered a radicalism which, in part, reflects the peculiar involvement of social scientists in the political life of developing countries, providing at the same time a challenge to orthodox social theory.

Economic development has been unevenly distributed in the world in two respects. Firstly, economic growth has been confined mainly to countries called developed or industrial countries such as United States of America, Germany, United Kingdom and Japan which had the initial advantage to develop but soon reached a stage of self-sustaining growth. Secondly, this growth has not subsequently filtered down to the developing countries and more specifically Africa to enable the latter to share in the growing prosperity of the world. Instead, the developed have grown from strength to strength while the L.D.C.'s have remained in the midst of real poverty.

This unequal spread of economic growth among countries, though a serious social problem, is not unique to Africa. A number of countries in Latin America and Asia are areas where underdevelopment is the rule rather than the exception. However, the recent years have seen the latter growing at a pace much faster than the former, thus indicating that there are probably other inhibiting factors operating in Africa.

The increase in the pulling power of the developed regions has led to the attraction of resources - human and material - in ever increasing doses from Africa. This process has been further aggravated by the decline in the population retention power of land in Africa resulting in the release of a large number of people who were previously engaged in subsistence agriculture activities on communal land. The high population growth rate in Africa has furthermore resulted in an increasing number of people entering the labour market every year.

Another devastating obstacle to economic development has been lack of savings and investments. Investment plays a key role in growth. And an important source of investment is savings of house-holds and firms but when banks and other financial institutions do not function well and smoothly, the link between private savings and investment may be broken. The unfortunate aspect of the problem in Africa is that underdevelopment is perpetuated not only because of broken financial system but also for the following reasons:

- Most African countries are agrarian economies but agriculture development suffered with the inability to apply modern agricultural techniques and the prevailing system of land tenure has contributed to low agriculture productivity.

- The high population growth rates have resulted in a high dependency burden of 1.016:1 which militate against the accumulation of savings. This is well above the average dependency ratio for low-income countries in general which is 0.81:1.[3]

Since agricultural incomes are low, very little could be set aside to purchase suitable implements. Low agricultural productivity, and hence low

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[3] Ghana Demographic Statistics, (Statistical Service Department Ghana, 1994).

agricultural incomes meant low savings and investment. An attempt to break the vicious circle of poverty described above is made by way of governments policy of industrial development in Africa which it was hoped would trigger off development of the agriculture sector as well as increase in incomes. The hope expressed above has not been realised due to lack of finance and to finance industrial development in Africa, governments have to rely on external sources. In this regard, foreign loans are contracted which come with their own problems such as high interest rates between 5% and 8%, unreasonable concessions to foreign investors and other problems associated with aid disbursements.[4] Usually governments solicit assistance of foreign funding which they believe would accelerate the attainment of self-sustaining growth. However, the consequence of the use of foreign resources to accelerate growth may in fact frustrate it. Given the built-in character of governments consumption expenditure patterns resulting from the use of foreign finance, adjusting governments budget to the discontinuation of foreign finance becomes difficult.[5] In concluding this section, it must of course be immediately pointed out that whilst economic factors determine the outcome of development, the process itself cannot be explicable in economic terms alone. The relative role played by social cultural, historical and psychological factors would be mentioned but not in detail. The emphasis would be on inadequate investment capacity.

2.2 THE CONCEPT OF ECONOMIC DEVELOPMENT

An attempt to define economic development must go hand in hand with a definition of the concept of development. Development is a many-sided process. At an individual level, it implies increased skills and capacity, greater freedom, creativity, self-discipline, responsibility and material well-

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[4] South Magazine, May, 1985.

[5] Dacy, D.C., Foreign Aid and Growth in Less-developed countries: Economic Journal, September, 1975.

being. At a macro level it implies the improvement in the quality of life as a whole, in the society from one level to a superior one. In discussing the challenges ahead, it is necessary to dispel the fog around the word "development" and decide more precisely what it means. Only then will it be possible to devise meaningful targets or indicators and thus to improve policy framework at national or international levels.

To define what development is, we cannot avoid what the positivists disparagingly refer to as "value judgements". Development is therefore inevitably a normative concept, almost a synonym for improvement. To pretend otherwise is just to hide one's value judgements. For instance just when comparing the levels of development between two countries, it is rather difficult to conclude that the situation depicted by a set of projections in one economy are preferable to that shown by another set simply because the former imply a high per capita income. After all, in what sense can South Africa be said to be more developed than Ghana. This is a question that requires a level of value judgement to answer. Early ideas on economic development, defined as an increase in the flow of goods and services which was more rapid than population growth, have been gradually replaced by others which are linked to a complex of social changes that acquire meaning with reference to an implicit or explicit systems of value.[6]

Development is generally conceptualised as a process of directed change leading to economic growth, political autonomy and a broad basis of social reconstruction. Social reconstruction as an over-arching concept makes provision for principles such as freedom, equality, fraternity, satisfaction of basic needs and a general process of community growth becomes possible as soon as a cumulative process of directed change starts to influence the

[6] Furtado, C. An age of global reconstruction. In K.P. Jameson and C.K. Wilber (Eds). Directions in economic development. (Notre Dame: University of Notre Dame Press, 1979), p.154.

total social structure.[7] In all this the improvement of the human condition is held to be the underlying motivation. It is acknowledged that development can lead to erosion of existing structures, development thought can not be separated from the elements of directed change and progress. One can thus never evade the normative elements inherent in this concept. In this regard Dudley Seers argues[8] that value judgements of development are found in the first phase of economic and social planning by the particular governments. As far back as the eleventh world conference of the society for International Development in New Delhi in 1969, Seërs was of the opinion that value judgements could not be separated from any form of development action. On the other hand he considers value judgements as necessarily related to, among others, the following:

> — The questions to ask about a country's development are: What has been happening to poverty? What has been happening to unemployment? What has been happening to inequality? If all three of these have declined from high levels, then beyond doubt this has been a period of development for the country concerned. If one or two of these central problems have been growing worse, especially if all three have, it would be strange to call the result "development" even if per capita income doubled.

The value commitment regarding the concept of development thus comes to the fore on all levels. The development concept, as utilised here refers to the development among other things of the total person. Economic development is often interchangeably used, but confused with economic growth. Development and economic growth are not related per se. In the strictest sense, economic development can be defined as the process which is necessary to bring about, over time, a significant improvement in the

[7] Varma, B.N. The sociology and politics of development. (London: Routledge and Kegan Paul, 1980), p.15.

[8] Lehman, David, Four critical studies. (Great Britain: Frank Cass, 1979), pp.10-11.

general living standards of the majority of inhabitants of a country. Economic growth on the other hand is defined as the process whereby the productive capacity increase of a country is such that national income increases over time. Development, unlike economic growth is not attained by means of models designed by experts and may exceed the satisfaction of human needs. Development indicators such as per capita income, literacy and life expectancy are not ends in themselves but the indispensable means for enriching the quality of human life.[9]

Development as change taking place over an extended period cannot easily be defined. Not only is it immensely difficult to visualise the final effects of development, but the complex fusion of goods, services, information, symbols and meanings also make it impossible to predetermine its ultimate destination. It is not possible to indicate precisely the points of intersection between the components of development, because people are involved and do not constitute meaning in accordance with computerised predictions. Apart from the fact that it is impossible to calculate in advance the final figuring of development, it is increasingly realised within development thought that the appearance of isolated symptoms of growth represents one of the most substantial dangers of development.[10] All quantifiable indices by means of which material progress can be measured (per capita income, GNP, etc) suffer from the defect of being incapable of measuring the real distribution of development. Numerous examples of the reality of growth without development can be cited, to the extent that re-evaluation of existing development programmes is necessary.

Some facets of the concept of development as discussed above are illustrated in the broad approaches of some of the international development

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[9] Coetzee, J.K. Development is for people (Johannesburg: Southern Book Publishers, 1989), p.8.

[10] Coetzee, p.11.

agencies. Paul Harrison[11] mentions the following major focal points of some of these organisations:

- Redistribution with growth (The World Bank) as a combination of economic progress (i.e. broader than a mere growth of the total gross national product) and increased social justice.

- Meeting basic needs (the International Labour Office) which concerns itself not only with the improvements of the overall income of the poor, but also with ensuring that they receive all the requirements for a life of dignity - i.e. adequate food, clothing, shelter, health care, education, employment and the right to participate in making decisions that affect them.

- Basic services (the UN Children's Fund and the World Health Organisation) which the poor and underdeveloped people require to alleviate suffering.

- Participation in development as a growing consensus that development can be accelerated if the energies and resources of the people are mobilised and provided that people participate in the decision-making that affects their lives and livelihoods.

- Ecodevelopment (the UN environmental programme) as a correction of the appalling arrogance in the face of both nature and traditional cultures by showing respect for the local ecosystem, as well as for the local social and cultural patterns.

- Ultimate values (UNESCO) as an authentic style of development emerging from within each culture, inspired by values derived from

[11] Harrison, Paul. The Third World tomorrow (Harmondsworth, Middlesex: Penguin Books, 1980), pp.23-43.

the people's deepest roots to ensure the advancement of man through his own endeavours.

The current debate on development is characterised by a search for alternative forms of measurement, the main one being that development must have a trickle-down effect towards the total population. This requirement resulted from the fact that in several cases, increases in economic activities centring around branches of foreign investments and resultant large-scale public works had no spread effect whatsoever.

By far the most popular way of representing the development path for the solution of the problems and alleviating tragedies of developing countries centred around the modernisation approach. In broad terms of this approach, development is conceptualised as a transition on a continuum with traditionality (underdevelopment) on the one hand and modernity (development) on the other. One of the most important sources of inspiration for the widespread acceptance of this particular representation of development is found in the relative success attained by the so-called Marshall Plan in Western Europe in the period following the Second World War.[12] The basis for the idea of development aid for developing countries in order to clear away underdevelopment, centred on the success achieved by making large amounts of money available (especially from the U.S.A.) to rectify the temporary disruption of European industries and agriculture during the period after the war. Such financial development aid as an intervening variable expedited the recovery process in western agricultural and industrial sectors and aid was thus regarded as being a means of solving the problems of the developing countries too.[13]

Extensive development aid, particularly of a financial nature, was seen as

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[12] Habermas, J. Toward a rational society. (London: Heinemann, 1971), p.18.

[13] Coetzee, p.10.

the incentive that would lead to the finalisation of the development process. Modernisation could then be described as the process during which an intensive diffusion of the characteristics of the "developed" west to the "underdeveloped" countries take place. The emphasis on qualitative experience and participation represents a different approach to that propagated by the traditional modernisation approach described above. Hence the movement away from the conviction that uncontrolled market forces per se are capable of constituting a well-functioning economy (the so called logic of the market economy), toward one favouring an economy (and broad social structure) based on solidarity.[14]

Imperialism and dependency approaches hold centralistic view of development. Just like modernisation approach all of them interpret changes on organisational and structural levels as responses which are externally inspired. The rejection of western centrism as embodied in western institutions and standards, calls for the evaluation of appropriate alternatives. Not only are various alternatives possible but new combinations can also present acceptable paths for development.[15]

In spite of the technological, economic, health and other achievements of the western world, a call for alternatives is not an attempt to serve up second and third-best options. It simply points to an acceptance of reality and an acknowledgement that the most sophisticated production methods, a soundly based welfare economy, technological advancement and an excellent academic backing do not necessarily constitute development. These aspects are in any case within the reach of few countries.

Many terms are used in describing level of development in Development Economics. For the purpose of this study, developed countries are also

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[14] Perroux, F. 1983. A new concept of development (London: Croom Helm), pp.40-53.

[15] Streeten, P.P., "The concept of alternatives", World Development, Vol.2, No.2, 1974.

referred to as advanced or industrialised countries. Underdeveloped countries were at various times referred to as backward, Third World, less developed or developing countries. The study mostly referred to this group as developing countries. The reason for this choice is that when this group is compared to the relatively developed countries, though behind in terms of development, it is eminent that majority of these countries have at least shown some improvements in the quality of life rather than total stagnation in economic development, even though the rate of development is relatively slower.

2.3 THEORIES OF ECONOMIC DEVELOPMENT

2.3.1 Some general characteristics of development theories

Following the Second World War, the problem of socio-economic underdevelopment became a major issue of practical concern. Increasing importance of this topic led to upsurge in theorising about it, which initially attracted interest mainly from economists, sociologists and political theorists. Their efforts drew on the history of the colonial era. Early attempts at constructing development theories were dominated by the fact that development was looked at mainly from an economic vantage point.[16] This followed inevitably from one of the prime reasons for the increased interest in the topic, namely the realisation that widespread poverty and material backwardness in the newly independent countries posed a serious international problem. The need for development was naturally connected with economic growth, and the reigning ideas of mainstream economics provided the major building blocks for the theoretical analysis of development. Furthermore, since economics was solidly embedded in the ideas of positivist science reigning at that time, giving rise to an optimistic

[16] Van Nieuwenhuijze, p.67.

faith in the potency of forms of "social engineering"; reducing underdevelopment was seen as largely a technical exercise.[17]

Following the nineteenth century theory of evolution in the natural world, the social sciences saw events in the societal spheres of life in a similar light. Thus human history became the tale of inevitable though gradual advance through progressive stages.[18] One of the most striking formulations of this perception is the idea of stages of growth, proposed by the economic historian Walt Rostow.[19] According to Rostow each society moves inevitably through five consecutive stages which he broadly described as:

(1) the traditional society;
(2) the establishment of the preconditions for take-off;
(3) the take-off into self-sustained growth;
(4) the drive to maturity; and
(5) the age of high mass consumption.

Noteworthy is the fact that Rostow sees this as a universal phenomenon and that the critically important stage for the "engineering" of growth is the third stage. A great deal of effort has been expended in economics to flesh out the conditions for and the implementation of this stage. A further characteristic of development theorising is the widespread consensus that world development and underdevelopment should be seen as part of a whole in movement. This whole is the interwoven world economic system

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[17] Van Peursen, C.A. (Ed), Development and its rationalities (Amsterdam: Free University Press, 1985), p.42.

[18] Capra, F. The turning point (London: Fontana, 1982), p.19.

[19] Rostow, W.W. The stages of economic growth (Cambridge: Mass: Cambridge University Press, 1960).

produced by industrial capitalism.[20] Most forms of development are therefore products of the same initial impetus: the acceleration in the accumulation of means of production in Europe during the eighteenth and nineteenth centuries. During this period, the process of world economic system formed had two separate but related aspects. The first concerns the way production was organised, that is the replacement of the family form of organisation of production by industrialism with the division of labour. Hand in hand with this went the second aspect, the upsurgê of commercial activities, i.e. extension of market and trade. This also brought about the establishment of markets for production factors, such as labour and natural resources, and created enormous opportunities for technological innovation.[21] Both these changes resulted in dramatic increases in productivity and aggregate levels of production and consumption.[22] Mainly through foreign trades and later through the impact of the colonial period, these innovations (including patterns of consumption) were transmitted in different degrees to parts of the world outside Europe.

Contemporary reassessment of the encompassing effects of this historic process provide the main background against which three broad streams of thinking on development can be distinguished. They differ in their divergent groups in society and in the possibilities and desirability of the continuation of development. They can be labelled as the orthodox approach (stressing the virtues of modernisation), the political economy approach (stressing the locus of control of the development process) and the contra-modernisation approach (stressing the threatening and dehumanising side-effects of modernisation). Against this background it is possible to give a broad but more systematic outline of these approaches and to show where and why

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[20] Kitching, G., Development and underdevelopment in historical perspective (London: Methuen, 1982), pp.11-24.

[21] Heilbroner, R.L. The making of economic society (Englewood cliffs M.J.: Prentice Hall, 1975), pp.13-60.

[22] Heilbroner, (1975), pp.66-72.

they differ. It should be kept in mind, however, that although demarcation between the approaches is useful for analytic purposes, they do not exist in watertight compartments with no overlapping or common elements.

2.3.2 The orthodox approach

In this approach the basic goal of development is in essence a universal projection of the "American dream" - Rostow's idea of a high mass consumption society. This concept implies economic plenty in the context of political democracy and a dynamic class society. Closely associated with this are the classical liberal values of personal freedom in political and economic life. The approach is based on a "grand simplification" of the history of Western capitalist societies as the recipe for development. This is a view of economic growth under capitalist market conditions as the "engine" of development.[23]

Seen thus, the more growth there is, the more development there will be, if not immediately then in the long run. The benefits of growth in a democratic context would automatically reach all levels of society - an idea which came to be known as the "trickle down" of economic growth. Developing societies would move unstoppably towards the ever greater availability of goods and services for all their members. It is also accepted that the only way in which this can be accomplished is by industrialisation and commercialisation.[24]

Seeing that agriculture and rural life patterns are the norm in developing societies, this approach implies a thorough reconstruction of economic and other structures, including patterns of landholding and other property rights,

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[23] Morawetz, D., Twenty-five years of economic development 1950-1975 (Baltimore: Johns Hopkins, 1977), pp.241-246.

[24] Gillis, M. et al. Economics of development (New York: Norton, 1987), pp.544-567.

consumption patterns, political ideals and organisation, and the whole cultural matrix which imparts meaning and coherence to the lives of people. This implies a large-scale shift of the centre of gravity of economic activities, away from agriculture and the rural environment towards industry, services and the urban environment. This has been termed "getting rid of the farmers" by Higgins.[25]

Although the basic perspective is primarily, if not exclusively, economic, non-economic factors are not ignored. They are, however, taken as conditions for the underlying economic process. For example, it may be admitted that a particular cultural pattern or political system may be either conducive to development or an impediment to it. Whatever the case may be, it is necessary to bring their institutional and cultural patterns into line with the requirements of economic growth under the conditions of industrialism with sophisticated technology. This is commonly called modernisation.[26]

The analysis of obstacles to western style development is in effect the theory of underdevelopment contained in the orthodox approach. In this perspective, the perpetuation of traditional values creates one of the most substantial obstacles to the externally induced forces of modernisation. Thus the problems are internal; the prescribed remedy comes from without and consists of the importation of missing ingredients needed to achieve the development ideal. As the malady is essentially economic, so is the treatment, even if non-economic factors impinge decisively on the effort. The remedy includes investment capital (public and private) to augment the perceived lack of internally generated savings, technical assistance and training.

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[25] Higgins, B. and Higgins, J.D., Economic development of a small planet (New York: W.W. Norton, 1979), p.3.

[26] Lengyel, P. (Ed), Approaches to the science of socio-economic development (Paris: UNESCO, 1971), Part 4.

Given the overall assumption of the necessary relation between development and economic growth, a variety of theoretical positions exist. Within economics there have been theories of balanced growth[27] (also known as "the big push") and unbalanced growth[28]. The former views the best strategy for growth as one of "pushing" the economy as a whole, while the latter considers it preferable to concentrate on the most dynamic sectors first and to rely on their growth to affect other sections positively. Differences of opinion have also arisen as to what type of industrialisation should be adopted. Debates also exist in other scientific disciplines on such topics as which cultural values and traits are conducive to economic growth and whether correlations exist between economic growth and political institutions such as Western-style democracy.[29]

Following the successful historical record of affluent western countries, the orthodox approach uses the maximum increase in G.N.P. per capita as its development goal. It further explicitly supports capitalism and modernisation. Despite this success, it has become clear that the growth of G.N.P., conventionally measured, is unsatisfactory both as the main target of development strategy and as the sole criterion of success or failure. This stems from the failure of this approach in some crucial areas of concern to the population in poorer countries. These failures include the continuing high rate of unemployment, increased inequality within and among nations, and the stagnation of real income levels among the poorest. The common theme of most criticism is that the benefits of high growth failed to trickle down to the poor of the world. It was therefore suggested

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[27] Nurkse, R., Problems of capital formation in underdeveloped countries (New York: Oxford University Press, 1953).

[28] Hirschman, A.O. The strategy of economic development (New Haven: Yale University Press, 1958).

[29] Berger, P.L. & Luckmann, T., The social construction of reality (Harmondsworths, Middlesex: Penguin Books, 1976), p.64.

during the latter half of the 1970's that the elimination of poverty and the achievement of greater equality in income distribution should at least supplement, if not replace, the growth of G.N.P. as the target of development.[30] The prospect is further held out that if policies are followed that aim at meeting the basic needs of poor people within a reasonable period of time, growth will result. This stands in direct contrast to an approach that puts the attainment of high growth first. It is recognised, however, that there are substantial problems with the formulation of widely acceptable and unambiguous criteria for the application of such an approach.[31]

The policy model of this approach depends heavily on theoretical models of economic growth of which the most well-known is the Harrod-Domar model.[32] This fairly unsophisticated model states that economic growth depends on the rate of investable savings and the productivity of capital. The higher that both of these are, the higher the rate of growth will be. The broad policy implications of this model is discussed in a later chapter. A recognition of the shortcomings of the orthodox growth approach has not brought any measure of unanimity to the orthodox camp. The traditionalists within this paradigm retort that the data are insufficient to conclusively prove a worsening of living standards. They furthermore state that more time is needed before a final decision can be made and that judgement on the growth approach was passed too soon.[33]

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[30] Coetzee, pp.364-383.

[31] Streeten, P.P. et al., First things first (New York: Oxford University Press, 1981), pp.403-413.

[32] Todaro, M.P. Economic development Fifth Ed. (Longman: New York & London, 1994).

[33] Lewis, W. Arthur, Reflections on development. In G. Ranis & T.P. Schultz (Eds.). The state of development economics: Progress and perspectives (New York: Blackwell, 1988).

2.3.3 The political economy approach

In contrast to the orthodox approach which focuses growth as the key to development, the political economy approach is more concerned with the nature of the process by which economic growth is achieved. In addition, the orthodox approach regards people's values as the means to the end. Since the goal is growth, if people's values have to change to get growth, then society must effect that change. On the contrary, for the political economist a basic goal is to enhance and create room for people's core values. Development then becomes the means and not the end and is desirable only if it is consistent with the deepest values of those it is supposed to benefit. While the orthodox approach is based on the ideology of economic growth, which lets decisions on the creation and distribution of benefits be fully dependent on the market, the political economy approach poses two fundamental critical questions: Whose growth? Whose market?[34]

The political economy critique of the orthodox approach primarily departs from the evidence on the developing countries which give little support for the view that the benefits of growth do also spread to the poor.

Two major schools of thought have emerged in this perspective, namely Marxist and dependency theorists.[35] Marxists focus on the internal class structure of poorer countries as the key to understanding control. Dependency theorists see growth without development as the result of the orthodox approach. This follows the penetration of developing economies by foreign capital which results in a distortion of the economy in the sense that it develops not in terms of internal economic and social needs and forces, but in the interest of the country (or countries) from which the

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[34] Berger and Luckmann, p.64.

[35] Brookfield, H., Interdependent development (London: Methuen, 1975), pp.194-198.

foreign capital comes. Their analysis therefore focuses on the relationships between nations. Although both elaborate their criticism in terms of a Marxist or Marxist-leaning theoretical perspective (mostly the theory of imperialism), it is important to recognise that much of the same critique is now taken for granted among a broad spectrum of thinkers, many of whom cannot be called Marxists or even "Leftists" in any conventional sense.[36]

In general, political economists see the process of development sidetracked into the blind alley of underdevelopment by the accumulated effects of the spread of international capitalism. Traditional Marxists see underdevelopment as the result of the failure of the middle class, for various reasons, to perform its historical mission of creating a dynamic capitalist society. Dependency theorists argue that specific conditions led to a relationship of dependence between centre and periphery countries that distorted the development of the latter.[37] The political economy approach thus asserts that lack of development derives not primarily from poor countries inadequacies (internal explanation), but from the various forms of western capitalist dominance and exploitation (an external factor). Progress will therefore have to spring from internal restructuring, following a greater or lesser degree of dissociation from the international system.[38]

As a final remark on the two main approaches discussed up to this point, it must be pointed out that both share the overbearing characteristics of the mainstream of modern development theory: its strong economic foundation and its uncritical assumption of the universal superiority and applicability of western ideas of rationality. However, applying these to the problems of

[36] Brookfield, 1975. p. 194-198.

[37] Blomstrom, M. & Hettne, B., Development theory in transition (London: Zed Books, 1984), pp.34-36.

[38] Coetzee, p.222.

developing countries revealed an immense gap between theory and fact.[39] Further theoretical development thus attempt to fill this gap. An increasing number of disciplines take part in the discussion of development today and theorising has become more interdependent and interdisciplinary.

2.3.4 The "contramodernisation" approach

The last approach to development can be called "contramodernisation" approach. This approach is so called because it stresses the threatening and dehumanising side-effects of modernisation. The approach departs from the economistic, model-oriented and Eurocentric view of earlier discussions.[40] Since the middle of the 1970's a further perspective on development has come to the fore. The suggestion is made that it is inadequate to make a distinction between underdevelopment and development, without also considering the possibility of overdevelopment. It was formulated as follows in the 1975 Dag Hammaskjöld Foundation report to the U.N.

> The crisis of development lies in the poverty of the masses of the Third World, as well as that of others, whose needs, even the most basic food, habitat, health, education - are not met; it lies, in a large part of the world, in alienation, whether in misery or in affluence, of the masses, deprived of the means to understand and master their social and political environment; it lies in the growing feelings of frustration that are disturbing the industrialised societies.[41]

Overdevelopment can be said to be the development process gone wrong. This can be partly described as similar to the idea of "over-consumption" by

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[39] Adams, A. An open letter to a young researcher. In R. Apthorpe & A. Krahl (Eds.) Development Studies. Critique and renewal. (Leiden: Brill, 1986), p.49.

[40] Van Nieuwenhuijze, p.6.

[41] Nerfin, M. (Ed), Another development: Approaches and strategies (UPPSALA: Day Hammerskjöld Foundation, 1977), p.5.

which a person can become obese, with its concomitant physical and psychological problems. Overdevelopment extends this concept to a general state of mal-development in which the over-consumption of the material goods in relation to one's needs is combined with under-fulfilment and under-consumption relating to non-material needs.[42]

According to the proponents of this idea, it is doubtful whether the excesses of this patterns of development which, though not yet a typical condition in western economies of Europe today (but has tendency towards it), can continue for much longer time. But to them, if it is unchecked this may spread its material obesities and, other deficiencies throughout these societies and from them further out into other countries. The proponents further assert that the present high levels of material consumption in industrialised countries have been built up through four processes:[43]

- a tremendous increase of labour productivity through sustained technological advance;

- exploitation of the "internal" proletariat paying wages which were low in relation to worker productivity;

- exploitation of the "external" proletariat by obtaining cheap goods and resources from abroad on favourable terms of trade which partly reflected very low wages and incomes for workers and peasants in developing countries;

- exploitation of nature.

That there has always been a precarious balance between these aspects and

[42] Coetzee, p.225.

[43] Coetzee, p.226.

one by one each of these props has been put under increasing strain and challenge. Attempt to maintain the momentum of the past will increasingly depend on further and more complex technological advances. These, in turn, are likely to deliver society more into the hands of experts, researchers and technicians, with labour becoming ever move redundant or removed from decision-making, and all but the elite reduced to the role of passive consumers. This process would then lead to fitful and uneven growth and instability which will be manifested in higher rates of unemployment and great uncertainty about the future. A glance at these would show societal overdevelopment: underdevelopment of personal roles and relationships; poverty in the midst of plenty; and the possible consequence of a changed international division of labour in the highly industrialised countries.[44]

Solutions are sought by way of resistance to protectionist pressures and encouragement of adjustment and restructuring in the industrial countries in line with international comparative advantage. On the supply side, proposals have been made to break down the watertight partitions between school, employment and retirement, thereby encouraging a more flexible and responsive attitude to employment. Where industrial restructuring is concerned, attention is given to the possibility that the gravest threat to employment does not come from competitions with the newly-industrialised countries but from technological developments and competition with industrial countries. Ultimately, the main adjustment problem may well be the permanent displacement of much unskilled and underemployed labour as a result of increasing automation.

No single solution is in light for this dilemma. A major element which is being considered in response to the problem of the provision of employment, is greater involvement of unions and employers in anticipatory action. What is required is the lowering of resistance to adjustment, restructuring and

[44] Galtung, J. et al., The poverty of progress (Oxford: Pergamon, 1982), p.142-157.

devising more adequate forms of compensation and incentives to encourage individuals and enterprises to shift into new activities. Finally, much thought has been given to alternative patterns of development, focusing not only on employment but on working and living in general. An efficient modern sector may only be possible in conjunction with an informal sector which provides an adequate lifestyle for those displaced or underemployed by a largely automated formal sector.

According to this line of thinking, it is necessary to retreat from an excessive dependence upon supplies of materials and food from around the world, and upon experts and bureaucrats to solve problems. The goal must be to promote less wasteful, resource-saving, smaller-scale and self-reliant forms of social organisation and ways of living. The key to this is seen in a new awareness of those aspects of the socioeconomic system that are wreaking environmental and human destruction. Such change involves more than a period of austerity while the most productive new technologies are introduced. Instead both production and consumption must be re-oriented round an alternative way of living so that they are set on a totally new course of development.

The plea is for a more holistic and globally integrated approach to development which according to Nerfin means:

> Development of every man and woman - of the whole man and woman - and not just the growth of things, which are merely means. Development geared to the satisfaction of needs beginning with the needs of poor who constitute the world's majority; at the same time, development to ensure the humanization of man by the satisfaction of his needs for expression, creativity, conviviality, and for deciding his own destiny.[45]

The concern felt about the effects of industrialisation in the wealthy

[45] Nerfin, p.7.

countries does not imply any lack of concern about the impact of alternatives on the developing countries; nor does it imply a complacent acceptance of the existing international economic order. Rather it reflects the conviction that any serious proposals for international reform must be built on the enlightened self-interest of all countries seen as a global whole.

To conclude, it should be stressed that these new perspectives on future relations between the highly industrialised countries of the world and the rest, may yet produce important lessons which African countries must take careful notice of. Poverty in Africa is acute. Agriculture in the region is often stagnant. Industrial development is often slow and frequently misdirected. The gap between population increases and the production and provision of the necessary consumables is growing in many respects.

There will always be debate about the details of different ways of life and development. But there can be no doubt that there are fundamental political, economic, ecological, cultural and technological reasons which demand that alternative development patterns must be considered and strived for. It is in these fundamental areas where the development concerns of rich and poor countries and segments of a society are ultimately linked, which makes the achievement of new development patterns a common goal.

CHAPTER 3

ANALYSES OF THE DEVELOPMENT PROCESSES OF GHANA & SOUTH AFRICA

3.1 PROFILE OF GHANA AND SOUTH AFRICA

In the preceding chapter, a discussion of the different explanations by the various theoretical approaches to economic development were briefly outlined. As was pointed out, each approach enhances one's insight in some respect to the practical ways different economic planners tackled the development problems of their respective countries at a point in time. What is called for in this chapter is a synthesis drawn between theory and practice in analysing the growth and development processes of the economies under review.

In this chapter a profile of economic activities in each of the two countries is followed by a discussion of the development pattern using the defined theoretical approaches as basis for analysis. Economic and non economic explanations as obstacles to development are also discussed in the last sections.

3.1.1 Ghana: The Development Process

Ghana is a low-income developing country located on the west coast of Africa, with a population of about 16.525 million, an estimated growth rate of 3.1% per annum (p.a.) and per capita gross domestic product (GDP) of US$400, a life expectancy of 55 years, and a literacy rate of about 65% in 1994. Ghana is well endowed with a broad range of natural resources, such as arable land, forests, and sizable deposits of gold, diamonds, bauxite and manganese, as well as considerable potential for hydroelectricity power. The directly productive sector of the economy include all primary and secondary economic activities - agriculture, mining, manufacturing, construction, power generation and water supply - and most tertiary activities including transportation, distribution, hotels and tourism, financial services and some personal services. The economy has traditionally depended to a high degree on primary (agriculture as well as mineral) production and exports. Exports of cocoa, gold, and timber still account for the bulk of total merchandise exports, with respective shares of 43%, 24% and 11%.[46]

The broad economic sectors and their sub-sectors as well as their respective contributions to G.D.P. are given in Table 3.1.1 below.

Table 3.1.1.: Sectoral and Sub-sectoral contributions to GDP in 1993

(Percent of GDP)

AGRICULTURE	41.2	INDUSTRY	15.0	SERVICES	43.8
Crops & Livestock	28.7	Mining & Quarry	1.5	Transport/Comm	5.8
Cocoa	6.1	Manufacturing	8.9	Trade, Hotels & Restaurants	19.1
Forestry/Logging	4.8	Construction	3.1	Financial Services	9.4
Fisheries	1.5	Electricity/Water	1.5	Other Services	12.1

Source: Government of Ghana: *From Economic Recovery to Accelerated Growth.* June 1993.

Agriculture is the dominant sector in Ghana's economy but over the past decade the sectors rate of growth has averaged only 1.8% p.a. This is largely due to the poor performance of the crops and livestock sub-sector which accounts for nearly 70% of the sector's output. The subsector's average growth rate is below 1.5% p.a. However, the volume of staple

[46] Kapur, I. et al., Ghana: Adjustment and Growth 1983-91 (Washington: I.M.F., 1991), p.2-9.

food crops - mainly grains and starchy staples has risen significantly at an average rate of 6.35% and 9.34% per annum, respectively in the past 5 years.

Although forestry contributes only 4.8% of total GDP, it is the third largest source of exports and the principal source of energy. Excessive exploitation of forestry resources for both timber and wood fuel has imposed constraints on this sub-sector and created environmental problems. Over the past decade forestry output rose at an average rate of only 2% p.a. Similar problems affected fisheries whose output grew by 2.8% p.a.

Together with forestry and fishing, the agricultural sector employs about two thirds of the labour force and accounts for about two-fifths of total output. Agricultural production, which is primarily on a small scale, is concentrated in cocoa and staple food crops. Ghana ranks among the world's largest producers and exporters of cocoa, even though its relative position has recently dropped from a long-held first place to third, behind Cote d'Ivoire and Brazil. The low rate of growth in agricultural production is primarily due to the low levels of investment and technological improvement in the sector generally, especially in the crops and livestock sub-sector, and to environmental constraints on forestry and fishing.

The industrial sector, which accounts for about 15% of GDP is relatively diverse and well developed compared with other sub-Saharan African countries. Overall, the sector achieved an average growth rate over the past decade of 7.4% p.a. In the past six years mining was able to attract considerable foreign investment and a number of new mines have opened and the sub-sector achieved a growth rate of over 10% p.a. Manufacturing, on the other hand which had depended in the past on high levels of protection left many industries vulnerable to competition from imported goods. This is compounded by lack of capital to finance new investment, which hinder improvements in productivity. In consequence, performance of the manufacturing sub-sector has been disappointing, with output growing only at an average of 0.3% p.a. over the past six years.

The service sector covers a wide range of tertiary economic activities. The sector is dominated by wholesale and retail trade, hotels and restaurants which account for more than half the sectors output. This is the second largest subsector in the economy after crops and livestock (see Table 3.1.1). The transport and communications subsector which also includes storage plays a crucial role in the economy despite its relatively small contribution to total GDP of 5.8%. The subsector also absorbs the largest share of public investment which in 1992 amounted to 26% of total public investment from all sources. Since 1984 the subsector's output which was stagnant has grown at an average rate of 8.6% p.a.[47]

Financial services subsector includes banking, insurance, business services and real estate. Even though major reforms in the financial sector have been introduced and new institutions created banking and non-bank financial services (including insurance, mortgage facilities, primary and secondary discount houses, venture capital and leasing institutions) have failed to keep pace with the needs of the economy; for example, financial support for long-term investment is still woefully insufficient. Other services are primarily, those provided by government under public administration.

To make an assessment of the feasibility of sustainable economic growth, one feature of Ghana's economic performance since 1980 should be noted. Ghana's growth rates at the subsector level were not very much different between 1980 and 1985 as shown in Table 3.1.2 (a). The sectoral composition of economic activity in million of cedis at constant 1980 prices is heavily weighted towards agriculture. The broad agriculture sector, which includes fishing and forestry, contributed 21,589 million cedis (over 51

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[47] Ghana - Vision 2020, Report on Co-ordinated programme of Economic and Social Development Policies (ACCRA; Ghana Government, 1994), pp.16-18.

percent) to total GDP in 1980. In 1981 this sector was slightly over 53 percent and over 55 percent in 1982. It increased in 1983 from 54% to 55% in 1984 before settling again at 54% in 1985. The industrial sector contributed 18% in 1980 but only 12% in 1985.

The service sector contribution of 31% in 1980 was second to agricultural sector in terms of GDP size. The sectors contribution remained steady at 34% in 1981 and 1982 but increased to 38% in 1983. By 1985 its share of GDP was 36%. Also set out on table 3.1.2(b) are growth rates by sector, 1980-85. A number of growth rates have generally been negative. There was however generally sharp improvements after 1983 in all sectors of the Ghana economy. The overall GDP growth rates were 1.2% in 1980, -3.8% in 1981, -6.1% in 1982, -2.9% in 1983. This situation changed for the better since 1984 at 7.6% and declined again to 5.3% in 1985.

Table 3.1.2(c) as shown below sets out the absolute contribution in billions of cedis, percentage contribution to GDP and percentage growth rate of each sector of the Ghana economy from 1993 to 1995 measured at constant 1993 market prices. From the table, the services sector accounts for the largest share of GDP in terms of sectoral development. In 1993 its share was 46.40%. This sector maintained its lead and grew marginally from 47.89% in 1994 to 48.83% in 1995. Agriculture came second with 41.60% share of GDP in 1993. The sectors contribution unlike the service sector dropped marginally from 40.45% in 1994 to 39.64% in 1995.

Industrial development which received much more attention of late contributed 14.50% in 1993 with slight improvements in 1994 and 1995 at rates of 15.05% and 15.66% respectively at the expense of the agriculture sector. The absolute contribution in billions of cedis of all the sectors have increased marginally throughout the period. But growth rates on the average did not exceed 1.2% in all sectors.

Table 3.1.2(a): The sectoral composition of economic activity in millions of cedis at constant 1980 prices, 1980-85

	1980	1981	1982	1983	1984	1985
Agriculture	21,589	21,036	20,352	19,187	21,151	21,974
Agriculture and Livestock ..	14,723	14,607	13,990	12,938	14,880	15,106
Cocoa	3,979	3,805	3,613	3,322	3,256	3,585
Forestry and Logging	2,216	1,945	2,097	2,263	2,336	2,570
Fishing	672	679	652	664	679	713
Industry	6,533	5,489	4,554	3,986	4,278	4,863
Mining and Quarrying	517	479	439	394	409	467
Manufacturing	4,197	3,388	2,694	2,555	2,811	3,234
Electricity and Water	314	351	323	197	183	241
Construction	1,505	1,270	1,099	840	876	920
Services	12,886	13,315	12,826	13,490	13,987	14,686
Transport and Communications	1,211	1,292	1,307	1,402	1,446	1,518
Trade and Hotels	4,060	3,982	3,569	3,745	3,972	4,170
Banking, Insurance, Real Estate	2,715	2,836	2,923	3,028	3,115	3,271
Government Services	4,446	4,746	4,549	4,819	4,928	5,175
Other Services	455	459	479	496	526	552
Imputed Service Charges	–890	–1,080	–1,213	–1,289	–1,373	–1,453
Import Duties	589	388	250	314	365	383
GDP at Market Prices	40,708	39,149	36,770	35,689	38,409	40,453
Per Capita GDP (Cedis) ..	3,667	3,437	3,145	2,977	3,125	3,208
Population (Million)	11.10	11.39	11.69	11.99	12.29	12.61

Sources: Government of Ghana: statistical service.

Table 3.1.2.(b): Growth Rates by Sector at constant 1980 prices, 1980-85 (Percent)

	1980	1981	1982	1983	1984	1985
Agriculture	2.2	–2.6	–3.3	–5.7	10.2	3.9
Agriculture and Livestock ..	0.1	–0.8	–4.2	–7.5	15.0	1.5
Cocoa	9.5	–4.4	–5.0	–8.1	–2.0	10.1
Forestry and Logging	2.0	–12.2	7.8	7.9	3.2	10.0
Fishing	9.1	1.1	–4.0	1.9	2.2	5.0
Industry	0.3	–16.0	–17.0	–12.5	7.3	13.7
Mining and Quarrying	–3.1	–7.3	–8.4	–10.1	3.7	14.3
Manufacturing	–1.4	–19.3	–20.5	–5.1	10.0	15.1
Electricity and Water	12.9	11.9	–8.1	–38.9	–7.4	32.0
Construction	4.3	–15.6	–13.5	–23.6	4.3	5.0
Services	–2.3	3.3	–3.7	5.2	3.7	5.0
Transport and Communications	–13.2	6.8	1.1	7.3	3.1	5.0
Trade and Hotels	–8.6	–1.9	–10.4	5.0	6.0	5.0
Banking, Insurance Real, Estate ..	3.9	4.5	3.0	3.6	2.9	5.0
Government Services	1.8	6.7	–4.2	5.9	2.3	5.0
Other Services	23.9	0.8	4.5	3.7	5.9	5.0
Imputed Services Charges	–27.9	21.3	12.3	6.3	6.5	5.9
Import Duties	–9.1	–34.1	–35.5	25.4	16.3	5.0
GDP at Market Prices	1.2	–3.8	–6.1	–2.9	7.6	5.3
Per Capita GDP	–1.4	–6.3	–8.5	–5.4	5.0	2.6
Population	2.6	2.6	2.6	2.6	2.5	2.6

Sources: Government of Ghana: statistical service, 1966.

Comparing figures for the period 1980-85 and those of 1993-95 as shown in tables 3.12(a)-(c), it is clear that during 1980-85 the agriculture sector dominated as an economic activity, contributing about 53% per annum on average to G.D.P. This sector was followed by the services sector and manufacturing sector in that order. During the period 1993-95 the trend changed such that the services sector contributed 47% which was more than any other sector. Agriculture and manufacturing sectors contributed an average of 40% and 13% per annum respectively. In terms of growth, G.D.P.on average grew by 1.2% per annum during 1993-95, but for 1980-85 negative growth rates averaging -4.3% were recorded during the first three years to 1983. A sharp recovery resulted in average growth rate of 6.5% per annum for 1984-85 after the introduction of the Economic Recovery Programme in Ghana.

Figures for 1986-92 were not available but from all indications the sectoral contributions to G.D.P. were similar to those of 1984 and 1985. However, G.D.P. growth rates declined gradually from 5.3% in 1985 to 2.8% in 1990 and by 1992 it was only 1.0% per annum.

It is most important to make structural analysis of the Ghanaian economy's development process to be able to identify the obstacles to the process. This will be useful in formulating development strategy. Since 1950, the rise of African national movements and the attainment of independence has been paralleled by an equally rapid growth in the number and scope of national development plans. Such a plan is viewed by almost all African states as one of the standard attributes of sovereignty.[48]

[48]. United Nations, 'Coordination of Development Plans in Africa,' Economic bulletin for Africa, 1964, vol.4, No.1. UNECA (1965), 'Outlines and selected indicators of African development plans,' UNEC document E/CE 14/336.

Table 3.1.2.(c): Sectoral Development at constant 1993 market prices

		Base Year 1993	1994	1995
2.10 AGRICULTURE	C.bn	1,636.71	1,653.05	1,709.76
	% GDP	41.60	40.45	39.54
	Growth	1.0285	1.0106	1.0343
2.11 Crops & livestock	C.bn	1,148.14	1,159.40	1,206.77
	% GDP	29.20	28.37	27.89
	Growth	1.0300	1.0098	1.0400
2.12 Cocoa	C bn	239.85	242.23	247.07
	% GDP	6.10	5.93	5.71
	Growth	1.03	1.0099	1.0200
2.13 Forestry	C.bn	184.60	188.13	192.36
	% GDP	4.70	4.60	4.45
	Growth	1.0119	1.0180	1.0225
2.14 Fishing	C.bn	58.98	59.68	61.47
	% GDP	1.50	1.46	1.42
	Growth	1.0242	1.0118	1.0300
2.20 INDUSTRY	C.bn	570.14	615.30	677.13
	% GDP	14.50	15.05	15.66
	Growth	1.0742	1.0792	1.1005
2.21 Mining & quarrying	C.bn	58.98	61.93	69.41
	% GDP	1.50	1.52	1.61
	Growth	1.0911	1.0508	1.1200
2.22 Manufacturing	C.bn	334.22	339.23	359.59
	% GDP	8.50	8.30	8.32
	Growth	1.0221	1.0150	1.0600
2.23 Electricity & water	C.bn	58.98	62.10	67.55
	% GDP	1.50	1.52	1.56
	Growth	1.0818	1.0529	1.0878
2.24 Construction	C.bn	117.96	119.63	130.40
	% GDP	3.00	2.93	3.02
	Growth	1.0625	1.0142	1.0900
2.30 SERVICES	C.bn	1824.45	1957.45	2111.31
	% GDP	46.40	47.89	48.83
	Growth	1.0711	1.0729	1.0786
2.31 Transport & comms.	C.bn	228.08	241.99	258.93
	% GDP	5.80	5.92	5.99
	Growth	1.0650	1.0611	1.0700
2.32 Trade & tourism	C.bn	625.19	674.58	731.92
	% GDP	15.90	16.51	16.93
	Growth	1.0820	1.0790	1.0850
2.33 Finance & real estate	C.bn	365.68	396.69	434.37
	% GDP	9.30	9.71	10.06
	Growth	1.0824	1.0848	1.0950
2.34 Government services	C.bn	522.96	557.99	536.06
	% GDP	13.30	13.65	12.37
	Growth	1.0760	1.0670	.9589
2.35 Other services nes	C.bn	86.50	89.03	93.48
	% GDP	2.20	70.17	64.07
	Growth	1.0295	1.0292	1.0500
2.40 Total of all sectors	C.bn	4030.30	4225.80	4498.19
	Growth	1.05	1.04	1.06
2.41 Less: Net service charges*	C.bn	97.92	138.33	174.23
2.42 GDP in Purchasers' Value	C.bn	3,932.38	4,087.47	4,323.96

* import duties less imputed bank services charges

Sources: Government of Ghana: From Economic Recovery to Accelerated Growth. 1995.

Actually, economic planning preceded independence. Indeed, Ghana (then the Gold Coast) had its first, ten-year economic plan in 1919, and the British adoption of colonial economic development planning as a desired standard policy dates back to 1939-40. However, the rapid post-war surge of colonial public expenditure plans was closely related to attempts first to counter the popularity of the nationalist movements and later to strengthen the economic infrastructure during the terminal colonial phase prior to independence.[49] Colonial national planning have - at least in principle - rather different rationales and outlooks. Generally, post independence (since 1957), Ghana political leaders see national, social and economic planning as a logical historical development from the national independence effort, now to be channelled into the rapid improvement of standards of life and of economic capacity.

However, the very nature of national socio-political or economic ideology which influenced economic policies later negatively affected hopes of attaining expected standards of life. It is difficult to quantify precisely the decline in living standards in Ghana from the 1960's, partly because of paucity of economic statistics between 1977 and the mid-1980s, and partly because of the difficulty of assessing living standards where the populace is not totally dependent on the market economy. However, a general picture seems to emerge of an across-the-board rise in living standards in the 1950s, stagnation in the early 1960s, followed by a decline which became precipitous in the 1970s. By the end of the decade economic regression was reflected in many areas.

Though the growth approach to Ghana's economic development do not fit exactly into the three approaches discussed in the preceding chapter, it can somewhat be analysed in line with these approaches. Since independence, the development approach adopted conveniently fitted into orthodox

[49]. Granville, S.A. 'Some aspects of development planning in Africa, mimeographed, London, 1962.'

approach (notably the Harrod-Domar growth theory), that was formulated before the second world war, and therefore on the historical growth paths of the developed countries. This approach, which can be regarded as the conventional development approach, holds that an increase in output or the economic growth of a country, as measured by the increase in G.N.P. or G.N.P. per capita, is sufficient condition for sustained development in the long run.

While Ghana's economic degeneration had multiple causes, including generally fairly poor terms of trade during most of 1970-87, there is little doubt that over-ambitious attempts to build a large public sector on a narrow, poorly supported agrarian base (cocoa, timber) was a major cause of the country's problems. Inspired by the higher growth rates achieved in advanced countries, political leaders after independence formulated ambitious development plans in 1963 with the belief that economic growth required the state to develop jobs, industries and public welfare services in urban areas the benefit of which could be automatically trickled down to all sections of the population in the economy.

The conventional wisdom which further emphasized capital intensive industrialisation in urban areas or metropoles as an inherent part of growth strategy was seen as the gateway to make Ghana an industrialised country. The rational behind industrialisation of this nature was the benefits of agglomeration and multiplier effects that would be created, given the forward and backward linkages in the economy. Motivated by this, political leaders embarked upon grand industrialisation programmes and built or initiated several industrial projects.

Although the above approach led to fairly high rates of economic growth in Ghana during the few years of implementation, the overall development picture in Ghana in terms of employment, poverty and socio-economic conditions have not been equally successful. For instance by 1970 over

70% of the population still lived in rural areas, average life expectancy was less than 51 years, and malnutrition and disease were rife. Above all, illiteracy rate was in excess of 70% and beside subsistence farming few people were trained enough to take up employment in the capital intensive industries since education and training was required.

With these outcomes, it may be asserted that the orthodox approach has been somewhat applied inappropriately in Ghana, without taking into consideration the less favourable initial economic, social and political conditions of the country. The Marshall Plan worked for Europe because the European countries possessed the necessary structural, institutional, and attitudinal conditions such as well-integrated commodity and money markets, highly developed transport facilities, a well-trained and educated work force and an efficient government bureaucracy to convert new capital effectively into higher levels of output. But these conditions were implicitly assumed to be in existence in Ghana, yet in many cases they were lacking. Complementary factors such as managerial competence, skilled labour, and the ability to plan and administer a wide assortment of development projects were lacking. This precarious situation was aggravated by lack of the necessary equipment, mismanagement and corruption at work place making the whole process of economic development inefficient.

Furthermore, at an even more fundamental level, the plan failed to take into account the fact that Ghana is part of a highly integrated and complex international system in which development strategies can be nullified by external forces beyond the country's control. For example, Ghana's foreign exchange earning depends on the interplay of the market forces of demand and supply of commodities which are exogenous to the influence of the development planners. Because of these numerous failures and growing disenchantment with this strictly economic theory of development, the need for a different approach which will create room for people's core values became eminent.

Disillusioned with the conventional growth approach and the extent of unsatisfied basic needs inspired the political economy approach which moved away from the narrower orthodox growth approach. Once the political leadership of Ghana was toppled in 1966, Ghana was all set to commerce the political economy approach to development. The basic goal of this approach is to enhance and create room for people's core values. Development then becomes the means and not the end and is desirable only if it is consistent with the deepest values of those it is supposed to benefit.

The shift in emphasis to the people-oriented approach have the objective to increase the availability and widen the distribution of basic life-sustaining goods such as food, shelter, health, protection, jobs, better education and to raise levels of living which the new political leaders believed were not achieved due to the adoption of strict conventional G.N.P. growth approach by the previous government. In the new development strategy priority was generally given to development for people by people. This is because the belief was that development plans and strategies cannot be successfully executed without the full participation of the leaders, communities and people as was the case of the previous Nkrumah regime whereby the conventional approach was centrally planned and lacked basic ingredients capable of motivating people in general to get involved in the process.

This system of planning concentrated too much power in government. The basic needs of people cannot be provided for by government alone. The basic need strategy can be successful if it involves both the private and public sectors, it is only by privatising some of the state enterprises that Ghana would be able to achieve this development goal. With this objective, the development plans of Ghana after February 1966, in line with the political economy approach was to establish a free economy. However, because the previous system was based on a command economic system it was difficult to change overnight. Consequently all hopes and aspirations were shattered.

The new political economy approach raised hopes for better life for the people but that did not materialize. In the process, output in all was abysmally low, while food production had not kept pace with the estimated 2.5% - 3% per annum population increase. Cocoa production, traditionally the mainstay of the economy and accounting for an average two-thirds of export earnings, was approximately half of what it had been fifteen years earlier, down from 572,000 tons in 1964-5 to 288,000 tons in 1978-9. Gold mining was performing at a similar level, production in most manufacturing industries represented only a marginal utilization of capacity (20-25% was common), while the formerly important timber sector was at a virtual standstill.

Economic decline had eroded Ghana's once impressive economic and social infrastructure, education, health, transport, and communication sectors had almost disintegrated. The combined effect of all this was that the standard of living and quality of life of Ghana's people had declined to pre-independence levels, the result of a tragic deterioration of the economy.[50] Since 1970, per capita income declined by 30%, import volumes fell to one-third of their previous levels, real export earnings declined by over half as exports declined from 21% to 4% of G.D.P., while government revenue covered only 35% of total expenditure; the remaining 65% was paid for by domestic and international funds, resulting in heavy indebtedness.[51]
This approach to development also partially relied on views of dependency theorists which saw growth without development as the result of the penetration of developing countries by foreign capital which resulted in a distortion of the economies resources to benefit the interest of the country (countries) from which the foreign capital comes. Following this, government in the mid-1970's repudiated all debts owed to international

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[50]. Price, R. "Neo-colonialism and Ghana's economic decline: A critical assessment. Canadian Journal of African studies, 18: 1, (1984), pp.164-5.

[51]. World Bank, Ghana, Policies and Programme for Adjustment (Washington D.C., World Bank, 1983), p.xvi.

organisations and governments and self reliance measures promulgated in Ghana.

Although an important factor, however, the workings of the international economic system cannot be held solely responsible for Ghana's economic decline. While this acted to condition and limited domestic economic choice, a severe decline in agricultural and industrial output, contributing at least as much to general economic decline, must be laid at the door of inefficient and inappropriate public policies and general bureaucratic mismanagement. Government expenditures increased more rapidly than revenues; the result was to print more and more money to cover deficits.

Between the early 1970's and the early 1980s the economy of Ghana regressed to the verge of collapse. There was a persistent heavy rise in price levels of goods and a slowing down in the growth rate of per capita incomes. Negative growth rates were registered for several years. From the early 1970s living standards of the average Ghanaian plummeted. One of the outcomes was political instability: between 1966-81 five military coups jolted Ghana.

From the above it should be clear that the political economy approach as a strategy to Ghana's economic development was only on paper. There was not much as observed to show that political leaders meant to create any good impressions as set out in the development objective of the country. No clear effort was made to realise the basic need objective but rather a number of highly placed government officials and senior military officers were engaged in an apparent frenzy of corruption - misusing import licences, and taking dubious loans. By 1978 the economic situation had deteriorated seriously; high inflation, widespread shortages, and extensive unemployment became features of the Ghanaian economy. As a result of these factors economic conditions did not improve for the mass of the people. The almost inevitable coup followed in December 1981.

In the atmosphere of corruption, taking of loans and foreigners penetration of Ghana with capital failed to make any improvement in living standards of the people. Ghana's resources were exploited and the proceeds only found their way to benefit overseas investors and/or into the pockets of politicians and other officials. This was regarded as "evil" by the December 1981 revolutionaries in the sense that it was exploitative and had created imbalances with extreme poverty and fantastically rich people living in one society.[52]

The new regime was perceived as revolutionary in character and populist in its aspirations. Nineteen eighty-two began with slogans about the desirability of people's power and the negative aspects of 'neo-colonialism,' appearing particularly hostile to financial institutions such as the IMF and the World Bank. This can be likened to the contra-modernisation approach *because it stressed negative aspect of funding from IMF/World Bank* whereby conditionalities and modern approach to growth are required. The problems of the economy, it was proclaimed, were closely linked to its 'neo-colonialist' structure, implying covert control of the economy by foreign businesses.

This regime rejected the expected conditions put forward by the IMF for the provision of external funding, with a major reason for this rejection relating to the conditions set by the latter for granting loans. Despite the initial hostility to the international financial institutions by 1983 it was clear that the government had opted for the IMF/World Bank road in preference to the more autarchic policy measures of the left.

The Structural Adjustment Programme (SAP) depended upon aid flows from the west and government policies to keep public expenditure as low as possible in order to maintain economic growth and to repay debts already

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52. West Africa, (15 March 1982), p.750.

incurred. The experience of the various phases of the SAP in the 1980s was not without its worrying side. Ghana vainly strove to rehabilitate the economy during this period with inadequate and inappropriate foreign assistance whilst attempting at the same time to contain urban discontent as people's aspirations fell short of practical possibilities. By 1987 the regime lost much of its initial post-coup popularity, and was perceived as having 'sold out' to the west without benefits accruing to the people.[53]
To western governments and financial institutions such as the IMF and World Bank, Ghana is 'success story' of West Africa. The paradox is that the government is doing all the 'right' things at immense political cost, yet failing to produce a speedy economic recovery, although stabilization has been achieved.

3.1.2 South Africa: The Development Process

South Africa is located on the Tropic of Capricorn in Africa. The country occupies the entire land area of the southern tip of the African continent, completely engulfing Lesotho. South Africa had a population of about 41 million in 1991. Based on GNP per capita and the structure of production, South Africa is considered to be an upper middle income country. An annual income per capita of US$2600, a life expectancy of 62 years and average literacy rate of only 55% for 1993 puts it in the upper middle-income bracket for developing countries. Its labour force is expanding rapidly as a result of high population growth rates of 2.5%, and unemployment and underemployment currently exceed 30%.

South Africa is rich in variety of natural resources, a feature of the country's economic experience envied by many other countries. Notable among them is a rich endowment of minerals that influenced the structure of the rest of

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[53]. Parfitt T.W. and Stephen P. Riley. The African Debt Crisis. (London: Routledge, 1989), p.122.

the economy. For example South Africa has extensive reserves of gold, coal, uranium, diamonds, asbestos, manganese chrome, iron ore, etc. With 13.6% the country has the third most extensive uranium deposits in the western world. Although geographically South Africa comprises less than 4% of Africa, and just more than 6% of the total population of Africa, it provides more than 50% of all the electricity generated on the continent.

From a chiefly agricultural-mining country South Africa has developed into an industrial country. While the primary sector was responsible for almost two thirds of the GDP at the beginning of the century, secondary industries began growing in importance especially during the 1950s. The tertiary sector began to contribute significantly to the GDP during the 1960s. Table 3.1.3 below sets out the percentage contribution of each of the various sectors of the South Africa economy to the GDP from 1910 to 1992. From this the structural changes can be deduced, as mentioned above.

Table 3.1.3: Percentage contributed by the different sectors to GDP

Sector	1910	1920	1930	1940	1950	1960	1970	1980	1990	1991	1992
Agriculture	20,1	24,9	14,9	12,4	17,5	12,4	7,9	5,2	5,2	4,7	4,0
Mining and quarrying	28,7	18,0	16,8	20,8	12,9	12,7	9,0	21,5	10,6	10,4	9,6
Manufacturing, electricity and construction	3,7	7,5	9,3	10,9	23,6	26,6	30,7	29,4	33,0	32,4	32,2
Commerce	12,6	14,8	15,6	14,0	14,7	14,2	15,1	12,4	13,4	13,5	13,7
Transport, storage and communication	9,3	8,6	11,0	9,7	9,3	10,3	9,8	8,9	8,2	8,3	8,4
Services	–	–	–	–	10,1	11,2	15,0	11,1	13,3	13,5	14,0
General government	25,6	26,2	32,4	32,2	7,7	8,6	9,3	9,3	14,0	14,8	15,7
Other producers	–	–	–	–	4,2	4,0	3,2	2,2	2,3	2,4	2,4

Sources: *Official Yearbook of the Republic of South Africa; Quarterly Bulletin*, South African Reserve Bank; other publications

Although the absolute contribution of agriculture and mining to the GDP has continued to grow since 1910, their relative absolute contribution has declined. This can be attributed to the important contribution made by the secondary sector since 1950 and by the tertiary sector since 1970. In 1992 the contribution of the primary sector was 13.6% (agriculture 4.0% and mining 9.6%), that of the secondary sector (manufacturing industries, electricity and construction) was 32.2%, and that of the tertiary sector 54.2%. The tertiary sector comprises commerce 13.7%, transport 8.4%, services 14.0%, services provided by the government 15.7% and other producers 2.4%. The manufacturing sector is the principal component of GDP by industrial origin followed by mining.

Tables 3.1.4(a) and (b) below set out the GDP according to the type of economic activity between 1985 and 1992 in greater detail. The contribution of the tertiary sector to the GDP grew gradually from 48.3% in 1985 to 54.2% in 1992. The percentage share of the secondary sector retained fairly constant, namely 31.1% in 1985 and 32.2% in 1992. However, at current prices it grew from R34 908 million in 1985 to R95292 million in 1992. The contribution of the primary sector to the GDP declined yet further from 1985 to 1992, decreasing from 20.6% to 13.6%. It is clear that the percentage contributions to the GDP of both agriculture and mining declined markedly from 1990 to 1992 due to drought.

The contribution of the tertiary sector to the GDP is increasing. All the economic activities in this sector grew between 1985 and 1992. The greatest increase occurred in services provided by the government sector. This increase grew from 12.4% in 1985 to 15.7% in 1992. Also notable is the growing contribution of the manufacturing industry from R25 928 million (23.1%) in 1985 to R73 722 million (24.9 percent) in 1992. The pace of industrialisation which began in the 1950's has been maintained, which indicates that South Africa is becoming a highly developed industrial country.

The Economic recovery which started in 1992 continued through the 1993 and 1995 growth rate of 3% was the highest since 1988. The outstanding feature of the recovery has been the strong growth in real gross domestic fixed investment. Private-Sector companies are showing high levels of confidence and have added significantly to their productive Capacity. The first two years of the Government of National Unity G.N.U. in South Africa (1994-95) can be said to be an economic success in that the macro fundamentals have improved and have combined in a more favourable configuration than during previous upturns in the economy.

Table 3.1.4(a) Gross domestic product according to type of economic activity at current prices

	R million							
Sector	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**
Primary	**23 197**	**27 456**	**28 809**	**33 463**	**36 231**	**37 351**	**40 044**	**40 175**
Agriculture, forestry and fishing	6 526	7 242	9 430	11 560	12 649	12 272	13 039	11 765
Mining and quarries	16 671	20 214	19 379	21 903	23 582	25 079	27 005	28 410
Secondary	**34 908**	**40 416**	**47 494**	**58 158**	**68 655**	**78 101**	**86 478**	**95 292**
Manufacturing	25 928	30 277	35 752	44 105	52 859	59 945	66 567	73 722
Electricity, gas and water	4 836	5 632	6 827	8 231	9 225	10 710	11 710	12 668
Construction	4 144	4 507	4 915	5 822	6 571	7 446	8 201	8 902
Tertiary	**54 343**	**61 615**	**73 628**	**86 609**	**103 124**	**121 556**	**141 428**	**160 374**
Wholesale and retail, refreshments and accommodation	13 254	15 228	18 995	22 521	27 029	31 620	36 173	40 395
Transport, storage and communication	9 935	11 448	13 217	15 535	16 825	19 376	22 687	24 756
Finance, insurance, fixed property and business services	15 754	16 686	19 769	23 768	28 825	34 192	39 683	45 790
Community, social and personal services	1 897	2 222	2 604	2 994	3 446	4 020	4 645	5 357
Less: Imputed financial services	*3 200*	*3 709*	*4 380*	*4 990*	*5 883*	*6 975*	*8 188*	*9 734*
General government	13 901	16 465	19 636	22 495	28 006	33 690	40 012	46 553
Other producers	2 802	3 275	3 787	4 286	4 876	5 633	6 416	7 257
GDP at factor cost	**112 448**	**129 487**	**149 931**	**178 230**	**208 010**	**237 008**	**267 950**	**295 841**

Source: *Quarterly Bulletin*, South African Reserve Bank, March 1993

Table 3.1.4(b): Gross domestic product, percentage contribution of each sector

	% contribution							
Sector	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**
Primary	**20,6**	**21,2**	**19,2**	**18,8**	**16,1**	**15,8**	**14,9**	**13,6**
Agriculture, forestry and fishing	5,8	5,6	6,3	6,5	6,1	5,2	4,9	4,0
Mining and quarries	14,8	15,6	12,9	12,3	11,3	10,6	10,1	9,6
Secondary	**31,1**	**31,2**	**31,7**	**32,6**	**33,0**	**32,9**	**32,2**	**32,2**
Manufacturing	23,1	23,4	23,8	24,8	25,4	25,3	24,8	24,9
Electricity, gas and water	4,3	4,4	4,6	4,6	4,4	4,5	4,4	4,3
Construction	3,7	3,4	3,3	3,3	3,2	3,2	3,1	3,0
Tertiary	**48,3**	**47,6**	**49,1**	**48,6**	**49,6**	**51,3**	**52,8**	**54,2**
Wholesale and retail, refreshments and accommodation	11,8	11,8	12,7	12,6	13,0	13,4	13,5	13,7
Transport, storage and communication	8,8	8,8	8,8	8,7	8,1	8,2	8,5	8,4
Finance, insurance, fixed property and business services	14,0	12,9	13,2	13,3	13,9	14,4	14,8	15,5
Community, social and personal services	1,7	1,7	1,7	1,7	1,7	1,7	1,7	1,8
Less: Imputed financial services	*2,9*	*2,9*	*2,9*	*2,8*	*2,8*	*2,9*	*3,0*	*3,3*
General government	12,4	12,7	13,1	12,6	13,5	14,2	14,9	15,7
Other producers	2,5	2,5	2,5	2,4	2,3	2,4	2,4	2,6
GDP at factor cost	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: *Quarterly Bulletin*, South African Reserve Bank, March 1993

Growth in employment picked up about a year after the cyclical upswing. This growth however failed to match the rate at which the economy's active population is growing. An average growth rate of approximately 3.5% per annum will not lead to a sustainable transformation of the economy or broader society. To address the many backlog the G.N.U. acknowledged the need to go significantly further. A 6% growth rate, with clear and focused development programmes, about 500,000 new jobs a year, and better wealth distribution are important targets which the government is determined to achieve through sound macroeconomic management supported by trade and other reforms.[54]

[54] R.S.A.Budget Speech, 1996, Mercury Business Report March 14, 1996, p.11.

In furtherance of these objectives, government engaged in a thorough process to elaborate, co-ordinate,review and ensure the implementation of the Reconstruction and Development Programme(R.D.P.) in a manner that generates growth and development. It is clearly not possible at this stage owing to paucity of available data to fully reflect the scope and complexity of the work and process currently underway. It can be said however , with confidence that with government, business and labour collaborating fully in this process, the fundamental objective of the government to combine growth and development and addressing poverty, unemployment and low-living standards as speedily as possible can be realised. A strong development approach which can create jobs must be at the centre of both social and economic policy.

In analysing the development process of South Africa with respect to the approaches of development discussed, it must be borne in mind again (as in the case for Ghana) that the process of development as it is observed do not also fit exactly into these approaches in any particular order. At one time, it may seem to conform with a particular approach but in others, a combination of any of these approaches have emerged as the idea behind the growth process. Attempt will be made, however, to analyse the development process in line with the development approaches. The development approaches are used as comparative terms of reference and some salient features in the 'seamless web of history' will be noted.

The South African economic development process has undergone marked changes over the past years. These changes have been brought about by both the strength of availability of natural resources and the political climate of the country. Developments have included a changed attitude toward the implementation of policies regarding distribution of wealth in South Africa and substantial international influence both economical and political. Against this background it is perhaps timely to provide an overview of the performance of the economy amidst internal and external political pressures.

Over three hundred years ago when the Dutch first arrived and built a fort and developed vegetable and fruit farms around Table Bay, no thought of conquest or colonization lay behind this move. The object was to provide a half-way port of call where Dutch ships on their way to the far East could rest their crews, and leave their sick. Within five years of its establishment, however, a change was made which shaped the future course of the country's development, to the present position where South Africa stands as the most economically advanced and highly industrial country in the continent of Africa.[55]

Indeed, for the first two hundred years or so of its settlement, South Africa had little to attract the European immigrant or investor. In 1867, the discovery of diamonds followed by the discovery of the world's greatest gold-bearing reef less than twenty years later, provided South Africa with just those things the lack of which had inhibited its earlier development. It was with prophetic insight that the colonial secretary when placing one of the earliest diamonds upon the table of the House of Assembly in Cape Town remarked,

> Gentlemen, this is the rock on which the future success of South Africa will be built.[56]

Gold and diamonds between them brought about an economic revolution in the sub-continent with speed of accomplishment and far-reaching consequences upon the whole character of the country. The patriarchal subsistence economy was suddenly drawn into the full stream of world economic development. Southern Africa became one of the major investment areas of the world. Skilled labour was scarce, and high wages

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[55]. Houghton, D.H. The South African economy (O.U.P.: London, 1980) pp.1-3.

[56]. Frankel, S.H. Capital Investment in Africa: Its course and effects (O.U.P., London, 1938), p.52.

were necessary to attract workers from abroad. Urban centres sprang up in the very centre of the country. Railways were built from the ports to Kimberley and Johannesburg out of the new sources of wealth.

In view of the fact that the large urban population had to be fed, a major change took place in agriculture to produce for the growing markets. International trade as the earnings from the mines raised personal incomes and the general standard of living. This led to a greater volume of imports financed by the export of gold and diamonds. For example for the period 1891-5, diamonds and gold together accounted for R19.2 million (67%) of the total exports value of R28.6 million per annum and between 1901-5 it accounted for R36.0 million, over 74% of a total of R48.3 million per annum.[57] Then, too, other developments arose from mining. This in turn provided a growing local market for industrial products, and the manufacture of a variety of consumers' goods came gradually to be undertaken locally.

After the war, the restrictionist 'civilized labour policy' of the 1920s had tended to disappear in the face of the vastly increased demand for labour in all sectors of the economy.[58] At this stage it would thus appear that the approach to development in South Africa can be likened to the conventional orthodox approach. Mining had always been the leading sector of the economy but after World War II its place was taken by manufacturing. Employment of whites in industry increased rapidly after the depression, but employment of other groups was yet more rapid. The result was that the movement of Africans out of the low-productivity subsistence farming into the modern sector of the economy was accelerated.

Following this approach to development, the general boom condition of the country attracted foreign capital, and domestic capital formation also

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57. Derived from a table in C.G.W. Schumann, p.44.

58. Houghton, p.15.

increased markedly. The banking and financial sector was strengthened by the inflow of capital and by the established confidence in the Reserve Bank. The gross value of farming output increased from R75 million in 1933 to R246 millions in 1945. Manufacturing grew both in the size and number of the individual firms and in the variety of products produced and employment rose from 133,000 to 361,000.[59]

At the same time the gold mining industry had been growing from strength to strength, and the quality of farming had been greatly improved. Gross capital formation had been maintained since 1949 at between 20% and 30% of gross national product.[60]

In spite of a major capital outflow in 1959 and 1960 the net national income continued to rise. In terms of real capital equipment a major economic revolution has taken place in South Africa during the century from 1870 to 1970. In short, the country has acquired the essential infrastructure for a modern industrial economy.

In the case of Ghana it was argued that the conventional approach to development was unsuccessful because of lack of skilled and enterprising labour force. In South Africa, it should be admitted that the presence of permanently settled white inhabitants in the country gives rise to social tensions and political problems of great complexity, but from the economic angle their presence has provided enterprise and skills which must undoubtedly rank among the greatest growth factors in the economy. Moreover, these have spilled over to other sectors of the population with the result that in South Africa average standard of living is higher than anywhere else in black Africa.

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[59]. Union Statistics for fifty years to 1955 p.1-23.

[60]. Derived from S.A.R.B. Statistical Presentation of South Africa's National Accounts for the period 1946 to 1970, p.21.

The publication of the report of the commission for the socio-economic development of the Bantu Areas within the Union of South Africa (Tomlinson Commission)[61] in 1955 laid the foundation for equal economic development of the country. This report not only emphasised the necessity for development, but also made recommendations and prescribes directives for practical implementation by the authorities. However, the proposals were only partly put into operation, and never led to a well-balanced development effort.

After 1960, more economic development programmes started gaining momentum and actually initiated the economic development phase in the outer periphery. Based on new developmental insights, serious doubt arose about the appropriateness of past development efforts. During the period the development of political and administrative structures was emphasized. It would therefore appear that South Africa was then beginning the political economy approach to development. Economic goals such as diversification and increasing production in agriculture, mining and industry and raising of income were not given the same priority as the satisfaction of basic necessity of life.[62]

With regard to the previous economic development strategy it can be deduced that the policy was based on the same economic objective of the west modelled on the traditionally western capitalistic development strategy, in which economic growth rather than the structure of economic development is regarded as the decisive factor. What had been achieved was grossly inadequate to solve the development problem. The large scale provision of infrastructure, industrial development with sophisticated technology, urban development and modern commercial and agricultural

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[61]. Tomlinson, R. Industrial decentralisation and the relief of poverty in the South African Homelands. South African Journal of Economics, vol.51, No.4, 1984. p.548.

[62]. Liestner, G.M.E. Homeland development: A critical assessment. Africa Insight, vol.19, Nos. 3 & 4, 1980 p.110.

projects were built but development programmes in the sphere of rural, smaller-farmer and small business development, as well as the development of the informal sector and applied technology, simply received a low priority in development strategy - grass roots development had actually been neglected and services such as education, health and infrastructure were efficiently available only to a limited elite and the majority suffered low standards of living.

The new strategy (political economy) therefore shifted the focus to the decentralisation of economic goals and to accelerating the broad *development of the economy with emphasis on providing basic needs* particularly directed toward rural development. The machinery for the implementation of the industrial decentralisation policy was finally established in 1960 and a number of locations such as Rosslyn, Hammersdale, Newcastle, Pietersburg, Ladysmith to mention a few, were identified. This strategy has been pursued by means of positive measures aimed at attracting activities to the decentralised areas and negative measures aimed at controlling industrial development and the migration of people, especially blacks, to the existing core areas.

By 1968, however, it had become evident that the development of these locations was not spilling over into the outer peripheral areas, nor was it able to create jobs and basic needs at a rate which might lessen the need for migration to larger urban centres.[63] In a drastic departure from its previous policy, the R.S.A. government therefore opted for the promotion of industrial development inside the outer peripheral areas. The economic consequences after these developments is that whereas South Africa's economic growth rate, as measured by the growth in real gross domestic product, was 4.8% per annum in Post World War II and some 5.5% between 1960 and 1974, this figure has steadily declined since 1974.

[63]. Tomlinson, 1984, p.549.

Between 1975 and 1988 the real G.D.P. growth figure for the period 1980-1985 was hardly 1.0% per annum.[64]

Another striking feature of the South Africa economy is the decline in gross domestic investment in real terms. Between 1965 and 1980 the growth rate of gross domestic investment was some 5.2% per annum, while the comparative figure for the period between 1982 and 1988 amounted to - 4.5% per annum.[65] The growth potential of the economy is further constrained by sanctions and disinvestment and the country had become a net exporter of capital, while an influx of sources is needed to cope with its high population growth rate and development needs. As a result of sanctions many jobs were destroyed and increasing pressure has been exerted on the capital account of the balance of payments due to the capital flight from the country.

From the above analysis it should be clear that something had gone wrong with the development process as it was not able to create enough jobs and income to accommodate the fast growing labour force as well as providing the basic needs for the majority of South Africans. The enormity of concern felt about the unequal development pattern in South Africa whereby some areas received much attention and concentration of resources than other areas can be said to be the development process gone wrong. This can partly be described as a situation similar to the idea of "over-consumption" where the masses needs, even the most basic food, habitat, health, education -are not met.

In light of the above it was necessary that a further perspective on development come to fore. This perspective can be described as similar to the "contramodernisation" approach. According to this perspective,

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64. Lombard, J.A. Swart politieke hervorming. Potchefstroom: Repsa conference.

65. Lombard, 1986.

solutions are sought by way of resistance to the political system and encouragement of adjustment and restructuring the economic system of the country towards redressing imbalances of the past. The struggle started long ago in South Africa but it was not until the 1994 elections in the country when all South Africans for the first time ever, could democratically elect the government of their choice in a free and fair manner.

The history of development process of South Africa has been a bitter one dominated by colonialism, racism, apartheid and repressive labour policies. The result is that poverty and degradation exist side by side with modern cities and a developed mining, industrial and commercial infrastructure. The income distribution is racially distorted and rural people are marginalised. Throughout, a combination of lavish wealth and abject poverty characterises society.

As an integrated and coherent socio-economic policy framework, the government of national unity, sought to mobilise all the people and the country's resources through the Reconstruction and Development Programme (RDP), toward the final eradication of the results of apartheid and the building of a sustainable and prosperous growth and developed society.

By and large, the development records of the countries under review have been characterised by long-term decline in the pace of expansion. The annual average growth rates in real GDP have declined steadily since 1960's. Despite the high speed of the urbanisation process, approximately 65% of the population still lives in rural areas, with most people engaged in subsistence farming in Ghana. In South Africa 51.4% of the population lived in rural areas in 1991.

The factors observed during the investigation as major obstacles to economic development in the countries under review are presented under economic or non-economic explanations in the rest of this chapter. It must be borne in mind that the distinctions do not exist in watertight compartments with no overlapping or common elements, it is made for analytic purposes.

3.2 ECONOMIC EXPLANATIONS

3.2.1 The vicious circle of poverty

The most widely canvassed notion seeking to explain why countries have failed to develop is that they are trapped in a series of interlocking vicious circles of poverty and stagnation. The circles take poverty as their starting point. The first shows that poverty means low productivity and low incomes; these lead to low savings and thus to low levels of investment. The low level of investment in turn perpetuates a deficiency of capital which then explains continued poverty. This vicious circle therefore emphasizes the role of saving in development and seeks to demonstrate that low savings are both a cause and effect of the initial poverty.[66]

Another 'vicious circle' is said to be that the existing low incomes are insufficient to provide the peoples' physical efficiency thus reducing their productivity and perpetuating the low incomes which were the initial cause.[67]

Yet another circle emphasizes the role of demand in development.

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[66] Bauer, P.T. and Yamey, B.S., Economics of Underdeveloped countries (Cambridge: University Handbooks, 1957), p.64.

[67] Bauer, P.T. 'The vicious circle of poverty', Weltwirts-chaftliches Archives, 1965 Vol.95, No.2; reprinted in I. Livingstone (Ed.). Economic Policy for Development, Penguin, 1971, pp.12-14.

Poverty implies a low level of aggregate demand which then in turn explains why there is a dearth of profitable investment opportunities, and therefore very little investment. In this way, too, the deficiency of capital which is said to be the root of poverty is perpetuated. In other words this thesis claims, to quote P.T. Bauer, one of its most trenchant critics,

> *that poverty itself sets up well nigh insurmountable* obstacles to its own conquest.[68]

If the notions given by the proponents of the vicious circle of poverty described above are anything to follow then the only way to promote development is to break into the vicious circle by organising savings. Development goes a long way to benefit the present and future citizens of a country. In order to develop, resources are needed for production. Naturally, resources are limited relative to the demand for them. It is therefore imperative that to be able to develop, part of the present resources must be sacrificed in the form of savings which will generate investment leading to higher output and living standards in the country overtime. If the economic system is unable to make such sacrifices, the result would be low savings, low investments, low output and income which can cause poverty among the people. Savings and investment patterns in the countries under review is the subject of discussion in chapter 4. In the meantime, a superficial account is given.

In Ghana the task of organising savings rests both on the government and the private sector. The country is confronted with constraints in developing the private sector; as a result, the levels of domestic savings and investments are very low and do not permit a self-sustained and satisfactory rate of economic growth required to generate new employment opportunities for Ghana's rapidly growing labour force. It is observed that Ghana's

[68] Bauer, 1965, p.28.

recorded savings rate has been traditionally low, even by sub-Saharan African standards.

The level of investment dropped to below 5% of GDP in 1983 and the greater part of investment is undertaken by the public sector, nearly two-thirds of which is financed by external loans and grants. The figures below confirm this.[69]

- Budgetary resources - 23.5%.
- Public sector internally-generated funds - 13.8%.
- Foreign fund - 62.7%.

Evidence from household surveys indicate that large unquantified savings are kept in non-financial forms such as inventories or building materials. The Financial sector savings mobilization is observed to be poor. This performance is attributed to constraints such as under-developed financial infrastructure, lack of competition within and among the financial sector's major subsectors of banking, non-banking institutions, the formal rural financial institutions and the informal financial sector. Domestic savings have remained well below the level of investment and in recent years public sector savings have been negligible. In 1993 for example, total domestic savings were only 2.7% of G.D.P., with less than 1% provided by the public sector.[70] Under this circumstances it has been difficult to break through the vicious circle of poverty without any external source of finance to the country.

Savings as a percentage of private disposable income is unusually high in South Africa in general and accruing to the Whites in particular as most of the country's national income goes to the White population. Whites have

[69] Ghana Budget Statement of 1986.

[70] Ghana Commercial Bank Quarterly Bulletin Vol EV 1994.

personal incomes per capita of about 9.5 times those of Blacks, 4.5 times those of Coloureds and 3.0 times those of Asians.[71] Given this skewed nature of income distribution, domestic private investment is expected especially from the Whites who earn more than the other racial groups if a sustainable growth is to be achieved. But such private sector investment confidence has been shaken badly by growing political uncertainty and rising violence which led to capital flight especially in the apartheid era.

Public sector investment is another important area. In most areas of government expenditure including investment, apartheid worked in favour of Whites to an extent that Black areas were denied infrastructural investment hence, breaking through poverty circle among Blacks is a problem. This resulted to concentration of micro enterprise[72] activities in retail and commerce among Black societies, a typical pattern found in informal sectors in other parts of Africa, also in Ghana.

The attractive notion of vicious circle of poverty was given much currency by the late Professor Nurkse[73] in one of the earliest books on underdevelopment countries. Nurkse used the idea of interlocking vicious circles in support of his thesis that the only way to promote development was to break into the vicious circle by capital investment from abroad or by foreign aid. With an injection of capital, productivity would rise and the resulting higher incomes would eventually generate higher savings, sufficient to carry on the momentum of capital from abroad. Higher incomes would then also increase aggregate demand and so give further impetus to capital

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[71] Fallon, P. et al., South Africa: Economic Performance and Policies (Washington: World Bank, 1994), p.6.

[72] Micro enterprises are firms opened by individuals whose main motivation is to generate income required to provide the basic needs of the family rather than to grow into bigger enterprises.

[73] Nurkse, R., Problems of capital formation in underdeveloped countries (Oxford University Press, 1953), pp.28-31.

formation by creating profitable investment opportunities.[74] This idea of Nurkse is intuitively plausible but it is only by putting theory to work does theory truly come alive. Depending on foreign investment has its own problems and disadvantages. Some of the problems experienced in Ghana are high interest rates between 5% and 8% and unreasonable concessions to investors. Other major problems associated with aid are slow disbursement of loans and grants, and inability of the country to provide matching funds and the heavy debt burden it imposes on the recipient country. For example, United Nations Organisation figures show that in 1970 the west invested only US$270 million in Africa and took out US$1000 million and according to World Bank Annual Report of 1984, in 1982 Ghana spent 16.6% of foreign exchange earnings on debts servicing and by 1986 the ratio was about 62%.[75] With such a trend of burden created by foreign loans it would be extremely difficult for a country such as Ghana to come out of the grips of poverty and to push ahead in development.

Foreign aid and private investment have, of course, sometimes made important contributions to economic advance in recent years - Ghana is conspicuous example - but this was short-lived. Ghana's adjustment efforts supported by IMF and the World Bank since 1983 resulted in gross national savings and investment in the urban areas up to 1990 albeit from historically low levels, but this could not create the much expected spread-effect for the rest and even the situation has deteriorated by now. In South Africa owing to international isolation hitherto, the country's access to new external loans were substantially reduced yet the relative rate of development when compared to Ghana, is higher. This thus suggests that availability of foreign aid is not sufficient condition of development.

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[74] Nurkse, p.71.

[75] Trevor W. Parfitt and Stephen P. Riley, The African Debt Crisis (New York, Routledge, 1989), p. 160-163.

Finally, if foreign aid is so important as it was portrayed by Nurkse, it would be difficult to explain the existence today of many developed countries which started with low incomes per head and low stocks of accumulated capital, and which indeed exhibited many of the features of today's undeveloped countries. Yet many of these countries developed without appreciable injections of outside capital, and certainly without foreign aid.

3.2.2 Over-population and poor health

Over-population is a central problem of economic development. A country's ability to ensure an acceptable standard of living for all its people is closely linked to its ability to link a balance between the size of its population, its socio-economic capabilities and the extent of replaceability and renewability of its available resources. If the population outgrows its socio-economic capabilities and if the population growth is greater than the natural and other resources can sustain, the quality of life of the inhabitants will inevitably suffer. Poor health likewise constitutes a constraint on economic development.

People play a dual role in the development process: on the one hand they are its ultimate beneficiaries; on the other they provide the most important input into the process of production growth and transformation that is called economic development. In view of this dual role, one has to be careful when discussing issues concerning population growth. World population projections and estimates of natural resource availability can make frightening reading. Yet each new individual can also bring additional labour power, and even more important, additional human spark and creativity to help solve the many problems that society faces. Demography, the study of population has its own vocabulary. The most famous and influential demographic theorist of all time was Thomas R, Malthus (1766-1834).[76]

[76] Frejka, T., The future of population growth (New York: Population Council, 1973).

His pessimistic view of the principles underlying human reproduction and the prospects of economic development is well known. Malthus believe that:

> ... the passion between the sexes would cause population to expand as long as food supplies permitted. People would generally not limit procreation below the biological maximum. Should wages somehow rise above the subsistence level, they would marry younger and bear more children. But this situation can only be temporary. In time, the rise in population growth would create an increase in labour supply which would press against fixed land resources and eventually through diminishing returns, causes wages to fall back to the subsistence level. If this process went too far, famines and rising deaths would result.

Malthus did not think that the growth of food supply could stay ahead of population growth in the long run. In a famous example he argued that food supplies grow according to an arithmetic (additive) progression while population follows an explosive geometric (multiplicative) progression. The gloominess of the Malthusian theory is not surprising considering that its author lived during the early years of the Industrial Revolution in Europe when population had tended to expand in response to economic gains. Malthus did not live to witness the rest of the European demographic transition whereby early decline in death rates was followed, with a lag, by a fall in fertility. The reason for this was that wages rose, despite accelerating population growth, because capital accumulation and technical changes offset any tendency for the marginal product of labour to decline.[77] The death rate on the other hand appeared to have fallen because better measures were applied. Contrary to Malthus expectations, the birth rate also fell and the development process in these countries was enhanced greatly.

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[77] Gillis, M. et al., Economics of development (New York: W.W. Norton, 1987), pp.159-161.

Although Malthusian theory has been refuted, it holds much water in reference to the situation in developing countries. At present, resources and capital accumulations are unable to sustain the accelerating population growth. The African continent for example has presented the world with some of the most horrifying scenes of starvation, disease and deprivation. To a large extent, shortfalls in production is attributed to poor and uneven distribution of rainfall, social upheavals and unjust world economic order and poor domestic policies which together with the high population growth rates continue to aggravate the food supply situation and undermine production effort, hence the development process.

Looking at the over population question with reference to the countries underreview, the investigations reveal that the problem with high population growth in Ghana and South Africa is not so much overcrowding as the strain it imposes on resources needed to provide basic facilities such as water and sanitation, education, housing and medical services.

The total population of a country is influenced by births, deaths and migration. The current level of population of Ghana is a result of persistent high birth rates and declining mortality rates; international migration has ceased to exert any significant influence on Ghana's population since 1969 when the Aliens Compliance Order Law was passed. The birth rate is currently estimated at 45 births per 1000 population, and the estimated death rate now stands at 13 deaths per 1000 population. The population census of 1984 gave the population of Ghana as 12.296 million, with an inter-censual (1970-1984) population growth rate of 3.1% per annum. The total population of Ghana in 1994 was estimated at 16.525 million, with an assumed population growth rate of 3.0% per annum. This gives a population density of 51.6 per square kilometre in 1984 and 69 per Km^2 in 1994, compared with an average density in 1994 for all low-income[78]

[78] World Tables 1992. A World Bank. pp.276-279.

countries of 80.5 per Km^2.

The problem with high population growth in Ghana is therefore not so much overcrowding as the strain it imposes on resources needed to provide basic facilities. The fast growing population as shown on table 3.1.5 has resulted in a high ratio of dependents to working population. The high population growth rate can be attributed to the fact that in Ghana, many children are the social norm in traditional societies, that society looks askance at couples who have no or few children, that a man who lacks wealth can at least have children, and that a woman's principal socially recognised function in a traditional society is to bear and rear children. Children under 15 therefore account for nearly half (46.7%) of the total population and the elderly (65 years and above) for 3.7%, giving a dependency ratio[79] of 1.016:1. This is well above the average dependency ratio for low-income countries in general which is 0.81:1.

Table 3.1.5: Population Profile in Ghana

	1970 Census (x '000)	1984 Census (x '000)	Increase (% p.a.)
Total Population	8,559	12,296	2.62
Population Density*	35.9	51.6	2.62
Male	4,247	6,064	2.58
Female	4,312	6,232	2.67
Urban	2,472	3,935	3.38
Rural	6,086	8,361	2.29
Age (years)			
0 - 4	1,563	2,030	1.88
5 - 9	1,450	2,002	2.33
10 - 14	1,003	1,503	2.93
15 - 24	1,459	2,302	3.31
25 - 64	2,773	3,965	2.59
65 +	311	493	3.35

* Number of persons per square kilometre.

Sources: *Ghana Population Census 1984: Demographic and Economic Characteristics for Total Country.*

[79] Dependency ratio is defined as the ratio of dependants to the economically active population (i.e. labour force between 15 and 64 years).

Table 3.1.5 indicates the age distribution of the population of Ghana. The first important feature of the table is that the proportion of the population under 15 account for nearly half of the total population. Given this situation the economically active population would not be able to save a substantial amount of their income which may be directed towards immediate consumption by their dependents. Secondly the rate of growth in the various age groups particularly the dependent groups are very high indicating a potential worsening situation of already precarious situation in not far distant future.

As a result of this problem, efforts made to improve access to education for children of school going age (under 15 years) did not yield much dividend and also expansionary policies initiated in the past 10 years were not able to address problems associated with growing population such as unemployment and its attendant social vices. For example education which received an average of 24% budget of the annual government total expenditure (equivalent to 4% GDP)[80] over the past 5 years did not fulfil the expectations due to population pressures.

Development indicators show that even though Ghana compares favourably with most other African countries, social conditions are worse than in developing countries as a whole. Access to health care, safe drinking water and sanitation is inadequate especially in the rural areas and in consequence life expectancy of 55 is low and levels of morbidity, infant and child mortality are unacceptably high.[81] The relatively low life expectancy is due to an amalgam of various factors. Infant and child mortality is still affected by lack of protection from preventable disease, contaminated water, insanitary living conditions, poor nutrition and heavy manual labour, especially in rural areas.

[80] Ghana 1995 Budget Statement.

[81] The World Bank. 1993. Social indicators for development, pp.126-127.

Evidence indicates that malnutrition is a serious problem in Ghana, especially among young children and pregnant women. The Ghana Demographic and Health Survey of 1988 found that nationwide 31% of children were "stunted".[82] Throughout Ghana, the general level of sanitation is low. This is a contributory factor to the high levels of morbidity and environment pollution. Reticulated sewerage systems are confined to central of major cities. The sewerage system being operated by the Ghana Water and Sewerage Corporation (GWSC) for example is limited in coverage and is in need of rehabilitation. At any rate they fall short of what is needed. All these exert tremendous negative effects on economic development because when the labour force is not healthy, more time is lost and productivity declines. Attempts at addressing these problems in the past have seen little success owing to growing population pressures.

A review of population trends in South Africa on the whole indicates a similar situation as is observed in Ghana. However, the country has a skewed development pattern which reflects disparity in access to opportunities among the various racial groups. South Africa's population estimates between 1970 and 1995 are given in table 3.1.6. A reading of table 3.1.6 indicates that the population grew from 22.783 million in 1970 to 29.208 million in 1980 at a rate of 2.2% p.a. for a period of 10 years. From the 1980 figure it leapt to 38.012 million in 1991. The 1994 and 1995 estimates are 40.436 million and 41.244 million respectively. Using the 1991 estimates we can observe clearly in table 3.1.7 that Blacks form 75.4%, a large proportion of the total population. Asians form 2.6%, Coloureds 8.7% and remaining 13.3% is made up of Whites. The trend in population growth can better be appreciated by analysing the growth rates among various racial groups and the dependency ratios. Overall, the number of people under 15 years account for 36.0% and those over 64 years form 4.5% giving a total dependency of 40.5%. For example given that the

[82] Below 90% of the standard height-for-age ratio.

economically active population is 37.1%, the dependency ratio of 1.092:1 is well above that of Ghana which is given as 1.016:1. The table 3.1.7 further shows that different dependency rates exist among the racial groups with that of Blacks being 42.7%, which is above the national average. Whites have the lowest dependency rate of 31.5% on the same basis as before, the dependency ratios of the Blacks and Whites calculated are respectively 1.252:1 and 0.668:1. This literally means that among the Blacks more people depend on the economically active than among whites. Considering the skewed nature of income distribution and development pattern as mentioned earlier, the pressure population growth exerts on over-burden facilities cannot be overemphasized. Since in South Africa, the inhabitants per square kilometre is estimated as 30 people, this further shows again that just like Ghana, the problem of development concerning over-population is not much of overcrowding but the constraints it imposes on resources. Furthermore, table 3.1.8 indicates an interesting feature with regard to population by work status. For all South Africa, about 62.5% were not working[83] in 1991.

Among the disadvantaged Black societies, the rates are higher than those in the other racial groups. For instance, about 65.4% of Blacks, 61.5% of Asians, 58.6% of Coloureds and only 52.8% Whites were not working. The unemployment rates were 8.1%, 6.8%, 7.0% and 1.9% in that order. The reason for unemployment is not directly a problem of deficiency in demand for labour as such but that the Black regions lack infrastructure and consequently it does not attract the prospective investors. Secondly, the inadequacy of the skilled human resources due to the lower levels of literacy leading to these people being unemployable is also responsible for the unemployment there experienced. It can however be argued that over-population directly imposed much stress on limited educational and training facilities available to the less privileged as a result, they are not able to

[83] These rates are not unemployment rates, as they are in proportion to the total population and are not in proportion to the economically active population.

Table 3.1.6: Population figures (Mid-year estimates) and Table 3.1.7: Demographic features: RSA

POPULATION FIGURES (MID-YEAR ESTIMATES)

Population group	1970	1980	1991	1994	1995
	1 000				
Total	22 783	29 208	38 012	40 436	41 244
Asians	652	819	994	1 038	1 051
Coloureds	2 170	2 695	3 314	3 461	3 508
Whites	3 864	4 522	5 086	5 191	5 224
Blacks	16 097	21 172	28 518	30 746	31 461

1/ The former Republics of Transkei, Bophuthatswana, Venda and Ciskei are included

DEMOGRAPHIC FEATURES: RSA

	Total	Asians	Coloureds	Whites	Blacks
Population composition (1991)	100%	2,6%	8,7%	13,3%	75,4%
The aged - 65 years and older (1991)	4,5%	3,4%	3,4%	9,4%	3,8%
Children - under 5 years (1991)	12,7%	10,0%	11,3%	6,9%	14,0%
- under 10 years (1991)	24,8%	20,6%	23,0%	14,7%	27,0%
- under 15 years (1991)	36,0%	30,5%	33,5%	22,1%	38,9%
- under 20 years (1991)	46,3%	41,0%	48,2%	30,8%	49,5%
Economically active 1/ - Male (1991)	45,1%	53,0%	48,4%	57,6%	42,4%
- Female (1991)	29,1%	24,2%	34,7%	36,7%	26,8%
- Total (1991)	37,1%	38,5%	41,4%	47,1%	34,1%
Urban population (1991)	48,6%	96,2%	83,2%	91,1%	35,4%
Non-urban population (1991)	51,4%	3,8%	16,8%	8,9%	64,6%
Gender ratio - males (1991)	49,4%	49,6%	48,9%	49,7%	49,4%
Age dependency ratio	68,0%	51,4%	58,4%	46,0%	74,5%

1/ The data of the former Republics of Transkei, Ciskei and Bophuthatswana are excluded

Source: Central Statistical Service, RSA, 1995.

Table 3.1.8: Population by work status (1991 Census)

POPULATION BY WORK STATUS (1991 CENSUS)

Work status		Total Number	Total %	Asians Number	Asians %	Coloureds Number	Coloureds %	Whites Number	Whites %	Blacks Number	Blacks %
Total	T 1/	30 986 920	100,0	986 620	100,0	3 285 718	100,0	5 068 110	100,0	21 646 471	100,0
	M	15 479 528	100,0	488 952	100,0	1 605 811	100,0	2 519 833	100,0	10 864 932	100,0
	F	15 507 392	100,0	497 669	100,0	1 679 907	100,0	2 548 278	100,0	10 781 538	100,0
Employer/self-employed	T	812 626	2,6	52 470	5,3	42 468	1,3	394 348	7,8	323 340	1,5
	M	588 509	3,8	44 827	9,2	34 092	2,1	306 872	12,2	202 718	1,9
	F	224 117	1,4	7 643	1,5	8 376	0,5	87 476	3,4	120 622	1,1
Employee	T	8 693 092	28,1	279 086	28,3	1 087 495	33,1	1 899 084	37,5	5 427 427	25,0
	M	5 467 129	35,3	184 929	37,8	625 372	39,[illegible]	1 096 869	43,5	3 559 958	32,8
	F	3 225 964	20,8	94 156	18,9	462 123	27,[illegible]	802 216	31,5	1 867 469	17,3
Unemployed (looking for work)	T 2/	2 118 649	6,8	48 146	4,9	229 252	7,0	94 978	1,9	1 746 273	8,1
	M	987 415	6,4	29 318	6,0	117 689	7,3	48 515	1,9	791 894	7,3
	F	1 131 234	7,3	18 829	3,8	111 563	6,6	46 463	1,8	954 379	8,9
Not working (not looking for work)	T	19 362 552	62,5	606 918	61,5	1 926 504	58,6	2 679 700	52,8	14 149 430	65,4
	M	8 436 474	54,5	229 878	47,0	828 658	51,6	1 067 577	42,4	6 310 362	58,0
	F	10 926 078	70,5	377 041	75,8	1 097 846	65,4	1 612 123	63,3	7 839 068	72,7

1/ T = Total
M = Male
F = Female

2/ These rates are not unemployment rates, as they are in proportion to the total population and are not in proportion to the economically active population.

3/ Excluding the former TBVC states

Source: Central Statistical Service, R.S.A. 1995.

obtain the requisite qualifications and skills needed to make them employable.

There is little doubt that apartheid intensified inequality in South Africa beyond the level expected in a country at its level of development. While social indicators for the White population such as infant mortality and life expectancy at birth are in the range observed in developed countries, those for the Black are broadly comparable with poorer surrounding countries. These extreme contrasts tend to confirm the view that there are really two South Africans - a first world society for Whites and a third world society for Blacks.

The health sector seems driven by a preference for a western style, capital intensive curative approach, and most public health expenditure is directed towards curative, hospital-centred health services. There is wide disparity in access to public services. All Whites have nominal access to safe water and sanitation with no frequent disruptions in supply. In rural areas and Black townships on the other hand only 30% of the population have nominal access to safe water. Such conditions lead to high level of morbidity which cannot be wholly contained by the slowly improving health service which lacks doctors especially in the rural areas. This makes these environments less attractive to people and reduces their effectiveness at work.

Finally, over-population has the tendency of creating a situation whereby slums and shacks are build around major cities in the country. The lack of residential houses to contain the growing population have created distortions in the location of most workers who have to travel very long distances from home to work in uncomfortable vehicles which raises the supply price of labour and lowers the effectiveness of such workers through increased fatigue. The locational structure is hardly conducive to development of the informal sector and women are especially adversely affected, given their greater need to work near the home.

3.2.3 Inadequate resources

The level of economic development of any country depends to a large extent on the availability of resources (both natural and human resources) and how these resources are to provide for the needs of man. The shortage of resources relative to the demand for them is one important constraint to economic development. Although relative resource abundance furnishes no guarantee of material prosperity, countries with significant natural resource endowments clearly enjoy advantages not available to resource poor ones. The more accessible the natural resource is, the easier is accumulation of physical and human capacity. Resource endowments often provide a basis for resource-based industrialization, particularly given the savings in transportation costs made possible by resource processing. Taxes on domestic industrial and agricultural incomes may be lower, and public spending on infrastructure and social amenities may be higher, because a nation possesses readily accessible resource deposits.

Resource abundance, particularly in energy resources, may help insulate a country from unstable sources of resource supply, enabling it to continue normal growth while less fortunate countries strain to adjust to sharp higher prices when critical resource imports are relatively scarce. For instance, a country with ample fertile land and a large supply of resources that can be easily developed will find growth in income easier to achieve than one poorly endowed with such resources.

Economic infrastructure are better developed in South Africa when compared with that of Ghana. But when compared with developed countries, the urgency of infrastructural requirements can be immediately seen. For Ghana, the physical condition of the three components of economic infrastructure viz; energy, transport and communication facilities remain generally poor and services provided are inadequate and unreliable. Transport facilities cover the four mode of road, rail, air, and water. Road transport is the principal mode of transport used in Ghana. It is estimated that road carries 98% of freight. The current road network totals 38,700 kilometres, consisting of about 40% trunk roads, less than half of which are paved; 53% feeder roads which are either gravel or earth; and 7% of urban roads, most of which are paved but many are in poor shape.

The railway system consists of a triangular network connecting the three major cities of Accra, Kumasi and Takoradi. The system suffered many years of neglect and this resulted in inefficiency and unprofitability. With regard to sea and lake transport, the two main seaports at Tema and Takoradi handle most of Ghana's imports and exports, respectively. Even though turn around time for ships at Ghana ports is the quickest in West Africa, facilities are lacking and efficiency of operation is greatly hampered. The transport potential of Lake Volta is largely unexploited, due to inadequate port and navigation facilities and poor land connections. With regard to Telecommunication, services are fraught with frequent interruptions and there is a big backlog in demand for telephone installation. At present only about 48,000 lines are available but estimated demand is in excess of 300,000.

South Africa on the other hand has strong infrastructural base needed for economic development. The extent of South Africa's energy requirement and its energy supply is not known, owing to government's policy of secrecy in respect of fuel industry. The country's transport system provides the only reliable bulk trade link with the outside world for at least eight land lock countries. South Africa as a whole has efficient road network, railway system, harbour facilities and telecommunication system. However, the way these are distributed in the country work in favour of Whites and further increase the differences in welfare across racial groups.

In its modern cities, South Africa ranks among the four or five countries in the world in per capita spending on infrastructure. Yet Black urban areas and rural areas have worse facilities on average than other developing countries with similar per capita income. This is evident in such indicators as the extent of squatting, poor access to water supply and inadequate sanitation. It can be concluded that past apartheid policies dispersed and fragmented settlements of the disadvantage racial groups. This has resulted in inefficient infrastructural investment in such areas. Not only is the unit cost of supplying infrastructure high, but excess capacity in certain areas and limited capacity in others has led to low productivity of the existing network.

Furthermore, an economy may be endowed with natural resources, but low levels of income and slower-than-necessary growth rates result from inefficiency and underutilization of these resources. The availability of human power to harness a country's physical natural resources is indispensable if economic growth is to be achieved. But it is important to note that the number of workers per se is not enough to achieve the required growth. Labour quality in this regard that leads workers to be more productive is to be enhanced by education. In an influential presidential speech to the American Economic Association in 1960, Theodore Schultz[84] suggested that education could be considered a process of accumulating capital, which could later be drawn upon to increase a worker's productivity and income. He called this investment in human capital. This form of investment, said Schultz,

> ... is every bit as important as investment in the physical capacity.

Studies sponsored by the World Bank lend further support to the idea that human resource development has an important bearing on economic

[84] Schultz, T.W. "Investment in human capital," American Economic Review 51 (January 1961), p.17.

growth.[85] The relationship according to the study is two-way and mutually supporting. On the one hand growing economies can and do devote increasing resources to improvements of educational, health, and nutritional standards. But it is also apparent that investment in human resources helps to accelerate economic growth. It does this by increasing labour productivity, encouraging greater physical investment, and reducing the dependency burden of population. These contributions to growth are especially evident in the case of education which can be broadly defined as all form of human learning which is unquestionably the most important form of human resource development, in several senses. If resources as defined above are inadequate, any effort toward economic growth and development cannot succeed.

The importance of education as resource to economic development can further be demonstrated by the frequently observed correlation between education and income at both the individual and societal level. Generally, people with higher educational achievements earn more than lower grade achievers. People the world over intuitively recognize this correlation, and *base their desire to obtain the largest possible amount of schooling for their* children.

Similarly there is a strong correlation between national income levels and educational attainments. As table 3.1.9 demonstrates, illiteracy is rife in the very poorest countries and diminishes steadily as one goes up the income scale. The table also shows that educational attainment is directly related to income. It should be emphasized that the relationship shown in table 3.1.9 are averages. There are cases of which individuals and societies that have received little schooling are rich and others of well-educated individuals and heavily schooled societies whose incomes are relatively low. On average, however, the correlation between education and income is strong.

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[85] World Bank. Word Development Report, (New York: Oxford University Press, 1980).

Developing countries realising that investing in human capital is investment in a stabilized and secure future made education a major item in national budgets. Countries such as Ghana who emerged from colonialism after World War II generally inherited narrowly based educational system designed to train people mostly for 'White collar' jobs. Many nations that participated in educational expansion during the 1950s and 1960s found they had a problem of educated unemployment on their hands after a few years. A lack of fit between the kind of education and training received and what is needed on the job. This seems to aggravate the problem. Additionally, well-developed entrepreneurial class motivated and trained to organize resources for efficient production is absent. The absence of required resources whatever the reasons have proved devastating set-back to efforts toward development.

In terms of distribution of resources Africa is well endowed with mineral and primary energy resources. With an estimated 12.4% of the worlds population the region accounts for approximately 28% of the total value of world mineral production and 6% of crude petroleum output in 1991.[86] In recent years its share of the latter is increasing.[87] Actually, Africa potential is shown to be greater everyday with new discoveries of mineral wealth. The situation is that most of the wealth now being produced are not retained within the various countries but rather repatriated to the benefit of Europe, North America and Japan for example who are major investors in Africa.

As mentioned in the profile, Ghana is endowed with variety of natural resources. But the management of resources is equally important to economic growth just as its availability is. Considering the use of resources in Ghana it is observed that the country's natural physical resource

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[86] A World Bank Book. *Social indicators for development.* 1993. *(Derived from country tables).*

[87] A World Bank Book, 1993.

Table 3.1.9: Educational statistics in relation to GNP per capita (1970s and early 1980s)

Educational Statistics in Relation to GNP Per Capita (1970s and early 1980s)[a]

Income group	% of illiterate adults	Enrollment ratios[b]: Primary school Gross	Primary school Net	Secondary school gross	Higher education gross	Approximate public expenditure dollars per pupil: % of GNP	1st level	2nd level	3rd level
Below $300	64	61	50	13	1.7	3.0	40	270	3,100
$300-$500	37	70	54	19	1.7	3.0[c]	50	370	2,100
$500-$1,000	44	90	74	28	7.8	3.6	120	340	2,900
$1,000-$2,000	26	106	89	51	14.5	4.0	140	230	1,300
$2,000-$5,000	10	106	93	66	15.7	5.5	370	400	1,700
$5,000 or more	2[c]	102	89	77	24.0	6.2	1,800	2,200	5,500

Source: UNESCO Statistical Yearbook 1984 (Paris, 1984); World Bank, *World Development Report 1982 and 1985* (New York: Oxford University Press, 1982 and 1985).

[a] Year of most recent estimate available varies by country.

[b] Enrollment ratios express enrollment as a percentage of the school-age population. Gross enrollment ratios relate total enrollment of students of all ages to the size of the age group that normally attends that level of schooling; they can exceed 100%. Net enrollment ratios show the percentage of the pertinent age group that is enrolled.

[c] Rough estimate; many industrial countries with very high literacy rates no longer publish statistics on illiteracy.

endowment is not fully known. As to how natural and human resources are used, this investigation discovers that lack of implementation of comprehensive policies has resulted in inappropriate use of land resources. For example extraction of minerals of various kinds have created environmental pollution in many places leaving the affected people helpless. Also, traditional farming practices of the country has placed both ecology and the economy in hazard. Increased rate of extraction of timber with wasteful and destructive logging techniques and failure to replant have destroyed the ecosystem of vast areas of land. These have resulted in lower economic yields for the present and severely endangered the long-term ecology potential of natural renewable resources.

Furthermore, heritage assets such as historic towns, buildings of historical, religious or aesthetic importance, sites of scientific interest and natural features of outstanding beauty are neither listed nor protected. Many have been damaged or destroyed instead of being safeguarded for future generations and for tourist attraction which can be source of earnings. Also of crucial importance is the issue of traditional land tenure system. Existing systems of land administration tend to discourage development. Traditional land tenure generally inhibits contiguous urban development and the management of state land does not necessarily ensure orderly growth. Problems for development also arise through the limited negotiability of agricultural land due to communal ownership which places constraints on improved farming practices.

Human resources are a country's wealth, and it is people not machines or money, that make economies grow. In terms of human resource, education and training in Ghana are inadequate for improving income and for assuming future growth. The educational system, mostly trains people for 'white collar' jobs which are non existent. The majority of the people working lack knowledge required to do particular work efficiently. As a result the principal source of employment are small holder farming, small scale fishing and small-scale trading.[88] Formal wage employment which is dominated by the public sector, was not more than 0.5 million out of a total estimated labour force of around 8 million in 1993.[89]

Given the large fraction of labour force engaged in informal sector with very low productivity and earnings of many of them, this constitutes a serious under-utilization of human resources as the productivity of people operating in the informal sector is much lower than they could achieve under more favourable conditions.

In general, the public administration system is found to be weak. There seems to be widespread lack of clear objectives at agency levels and weak leadership at administrative levels. Most public service institutions lack expertise in critical areas such as policy analysis, planning, budgeting and accounting but are overstaffed at the lower semi-skilled and functional levels. Poor conditions of service (including remuneration and inadequate office facilities) have created low morale and disincentives in the system, resulting in loss of managerial and professional expertise to foreign countries.

Among those who remain in the system, the frustrations created by these conditions have led to bureaucratic attitudes and behaviour which are generally unresponsive to the needs of the public in general and the private sector in particular. Policy initiatives as well as programme design, implementation and monitoring have been handled by very few self-motivated and committed officials who are over-stretched and over-used. These result in inefficiency in discharge of functions and in the use of resources which have effect of impeding economic development in Ghana.

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[88] Ghana statistical service (Quarterly Digest of Statistics Vol.XI No.2 June 1993), pp.1-5.

[89] Ghana Statistical Service, Quarterly Digest of Statistics June 1993), pp.6-19.

Every country has a limiting factor which determines its eventual development. This study shows that South Africa's potential with regard to its soil, minerals and natural resources is, as far as variety is concerned, among the best in the world. Variety of natural resources such as gold, diamonds, coal, asbestos, uranium, manganese chrome, iron ore etc. are available. However, these can be fully exploited only if the necessary amount of water is available and utilised as effectively as possible. One factor which could restrict economic development in South Africa, is lack of sufficient water.

With its increasing population, rapid industrial development and expanding agriculture (especially irrigation farming), the demand for water is of critical importance in South Africa. The demand for water in South Africa according to a World Bank[90] study in 1994 increases approximately 1.6% per annum. If the trend continues, the total demand for water in the year 2010 will be approximately 29 000 million cubic metres (m^3) a year.[91] In order to keep the pace equal, the rate of water supply must also increase. From a chiefly agricultural-mining country South Africa has developed into an industrial country. In agriculture, a combination of capital intensity and a highly regulated and protected environment for White agriculture in the past resulted in high levels of investment, and modest but significant levels of growth in technical efficiency. However, technologies adopted seem inappropriate to the South African context in the face of growing labour surplus.

In a fast growing economy, improvements in the skills of the workforce are critical to growth. In South Africa, skill accumulation has been inadequate, and there has been a growing imbalance between the nations stocks of

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[90] The World Bank. South African Agriculture: Informal discussion papers on aspects of the economy of South Africa, 1994. Washington, p.90.

[91] The World Bank, p.92.

physical and human capital. The huge inequality in skill levels across different parts of the labour force is reflected in the educational and occupation attainments of the population by race. Table 3.1.10 shows the economically active population by education and race over the period 1970-85 in South Africa.

The overall literacy rate and the average years of schooling per worker are well below international norms. Given the overall capital intensity of South Africa relative to other countries with a similar GDP per capita, there is a marked imbalance between the 'quality' of labour input and the size of the capital stock. Labour input growth has failed to keep pace with capital growth and this has been one source of reduced economic growth. Looking to the future, the return to improving the skills of much of the workforce should be high in an expanding economy.

There has indeed been a substantial improvement in educational attainment. As table 3.1.10 shows, the proportions of Blacks in the labour force with little or no education have fallen markedly over the period, 1970-85, while the proportions with, for example standard 7 or above have increased. For Blacks however, penetration is still very limited at diploma and degree level. It is possible to use this information to get a measure of the potential input from each racial group adjusted for educational level. The basic method is to weight individuals of a given educational level by the ratio of their wage to that of a person with no education.[92] Persons with no education are thus given a weight of unity.

The method can be represented as follows: potential labour input for each group, I, is defined as $I = \Sigma(Wi/Wo)Li$, where Li is the labour force in the ith educational category, Wi is the wage, and Wo is the wage of persons with no education.[93]

[92] Hofmeyr, J.F. 1990. "The rise in African wages in South Africa: 1975-1985." Occasional Paper No.22. Economic research unit, University of Natal, Durban.

[93] These relative wages, (Wi/Wo), used are those for Whites in 1980 as taken from the population census. These should be less distorted by the effects of discrimination than those for other racial groups.

Table 3.1.10: Economically active population by education and race

Economically Active Population by Education and Race

	1970				1985			
	Blacks	Asians	Coloreds	Whites	Blacks	Asians	Coloreds	Whites
No Educ.	49.70	7.94	21.50	0.60	25.59	3.46	12.15	1.48
< Std. 4	22.90	13.17	21.73	0.63	23.82	5.22	16.80	0.00
Std. 4	7.25	9.51	10.76	0.75	9.10	3.98	9.20	0.00
Std. 5	6.51	13.38	13.29	1.38	10.36	7.03	13.07	1.09
Std. 6	7.91	26.76	16.34	13.52	11.63	18.43	16.72	4.63
Std. 7	1.78	6.88	6.19	8.88	5.48	7.84	9.43	3.76
Std. 8	1.97	10.13	5.62	24.72	6.87	16.75	10.14	19.98
Std. 9	0.95	3.35	1.12	6.27	2.06	7.84	2.88	5.93
Std. 10	0.39	5.06	1.43	28.10	3.51	18.35	4.90	31.06
Diploma	0.61	2.59	1.89	9.68	1.41	7.58	4.22	22.06
Degree	0.02	1.23	0.14	5.47	0.16	3.51	0.49	10.02
Total	100	100	100	100	100	100	100	100
Labor Force (000s)	5419	210.6	807.4	1674	8501	341	1208	2232
Labor Input	6675	329	1143	3131	11837	597	1852	4613
Labor Input per Worker	1.23	1.56	1.42	1.87	1.39	1.75	1.53	2.07

Sources: Republic of South Africa Population Censuses 1970 and 1985.

Table 3.1.11: Skill levels by race (percentage of employees in administrative, professional and clerical occupations), R.S.A.

Skill Levels By Race

(percentage of employees in administrative, professional and clerical occupations)

	1960	1970	1980	1985
Blacks	5.0	4.7	7.2	8.8
Asians	19.1	22.8	33.4	37.4
Coloreds	9.9	10.5	16.6	18.9
Whites	49.5	48.1	56.4	56.9

Source: Manpower Survey, CSS (various issues).

The bottom part of table 3.1.10 shows labour input per worker, thus calculated. It rose in all racial groups between 1970 and 1985. For example, labour input per worker rose among Blacks from 1.23 in 1970 to 1.39 in 1985 - an average annual growth rate of 1.3 percent.

Evidence from occupational surveys of employees also suggests that skill levels have increased over the past 20 years. Table 3.1.11 gives the proportion of employees in administrative, professional and clerical occupations for selected years for 1960-85. As measured by this indicator, the skill levels of Asians and Coloureds grew more quickly than those of other groups. However, virtually all growth in occupational attainment has occurred since 1970. While the indicator shown is very crude, it is consistent with the view of the National Manpower Commission which estimates that Blacks as a percentage of high level manpower[94] increased from 25.5% in 1965 to 35.6% in 1989. The difficulty with these measures, however, is that, given social pressures, employers may be redefining the job titles of Blacks more favourably.

If measured correctly, labour input has grown more slowly than capital stock. The calculations presented in table 3.1.10 suggest that total labour input calculated on the basis of the labour force grew at about 3.5% a year between 1970 and 1985, yet total capital stock grew at an average rate of 5.23% per year over the same period, implying that capital per unit of 'potential' labour input grew at about 1.7 percent a year. However, employment growth was even slower than labour supply growth (2.2% a year) at 1.6%. This implies that growth of capital per unit of actual labour input grew at around 2.3% a year. This result is entirely consistent with the decline in capital-productivity growth noted earlier.

[94] National Manpower Commission (1990). High level manpower is defined as workers with two years or more of training and an educational attainment of at least standard 10.

In the past, period of economic upturn have always been quickly accompanied by the development of shortages in key skilled occupations. There can be little doubt that renewed economic growth in South Africa will have similar consequences, and that skill accumulation will become a policy priority.

Finally, it has been difficult to obtain statistics but there is general agreement from different sources to the investigator that the continent of Africa with no exception is losing professionals and intellectuals at an alarming rate. Governments seem to be failing citizens and they are letting their feet do the talking. The seeds of the current malady in Africa were planted immediately after independence. Many had hoped that the new dispensation would rescue them from the cinderella status bestowed on them by colonial rulers but their thoughts were wrong. This situation of brain drain has hampered development process in African countries. The preceding sections have given economic explanations of key obstacles to development in Ghana and South Africa. Each contains an insight which, even if it does not provide a universal explanation may be helpful in understanding some particular instance of retarded development. Were it otherwise, one would hardly have been justified in discussing it.

3.3 NON-ECONOMIC EXPLANATIONS

It must of course be immediately apparent that whilst economic factors determine the outcome of development, the process itself can not be explicable in economic terms alone. What is more difficult is to assess the relative roles played by social, cultural, historical and psychological factors. This is out of the scope of this study and no attempt will be made here to do so let alone to adjudicate between rival theories. It is however reasonable to point out that there do seem to exist greatly varying obstacles as well as propensities to develop among different peoples at any one time, and that these may be more easily explicable in non-economic terms. A brief account of cultural and political factors as constraints to economic development in Ghana and South Africa would therefore be discussed.

3.3.1 Outmoded traditional and social patterns

It has often been argued that the real explanation for underdevelopment is that the social system and cultures of the low income countries are not adaptable to economic change. One of the earliest exponents of this view is Boeke[95] who based much of his analysis upon Dutch experience in Indonesia. According to Boeke capitalistic methods of production and distribution fail to spread from export industries established and directed by western entrepreneurs, because of the absence of the cultural and social prerequisites for western capitalism. Western economies are based upon unlimited wants, a money economy and large scale organization. Boeke claims that people in developing countries have only limited wants and that therefore their supply curve of effort is backward sloping. Labour fails to respond positively to stimuli intended to enhance output. Small-scale producers who dominate production likewise are not profit-oriented and can neither be induced to increase output by the offer of higher prices nor are they willing to assume the risks of adopting better techniques of production introduced from advanced Western countries. Production is organised on the basis of the extended family and exchange is confined to neighbourhood barter. In short Boeke's explanation for the failure of modern economic techniques to spread from one sector to other parts of developing economies is simply that 'the basic values and attitudes of the indigenous population are incompatible with the type of behaviour required to introduce and successfully maintain production based on the advanced techniques of developed economies.[96]

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[95] Boeke, J.H., Economics and Economic Policy of Dual Societies (Institute of Pacific Relations, 1953), pp.34-35.

[96] Baldwin, R.E., Economic Development and Export Growth: A study of Northern Rhodesia 1920-60 (University of California, 1966), pp.35-45.

Science and technology (S&T) has an important role to play in the development process. With respect to economic growth, the application of S&T is essential for improvements in productivity on which economic growth and development finally depend. It also helps to improve social conditions and the environment by providing people with better *understanding of the implications of social and cultural practices.* The introduction of S&T into a developing country which is unable to spread through other sectors of an economy give rise to dual societies in which an imported social system co-exists with an indigenous social system. Put in a different way it leads to the existence of 'enclave economies' or areas of economic activity within the underdeveloped countries which are governed by the techniques, motivations and organization of advanced Western economies, whilst the indigenous economic activities remain unaffected. This condition is often referred to as 'dualism.'

In common with most developing countries this study reveals that Ghana accords a low status to S&T. Unscientific beliefs and practices still abound in Ghana. Consequently, S&T has a low priority rating in the eyes of policy makers and managers of the nations resources, with the result that investment in S&T is small hovering between 0.3% and 0.5% of GDP. This is well below the target adopted by African Heads of State in 1980 under the Lagos Plan of Action and even further below the level attained by most middle income countries.[97]

The technology employed in many processes, especially by the average farmer and the small processor at the village level within the rural areas or the fringes of the urban centres is usually obsolete and hence is reflected in *very low productivity per capita. The tedium involved in the use of this type* of technology is worsened by the relatively low returns to effort which create disincentives for the youth to be interested in the associated

[97] Ghana Government, Report on co-ordinated programme of economic and social development, 91994), pp.18-19.

economic activities.

The low status of science and technology in Ghana has retarded the country's economic and social development. The majority of farmers still use traditional methods of agriculture such as cutlasses, hoes, digging sticks and other rudimentary tools which to a large extent, explains the very slow improvement in crop (and animal) yields over the years. Also, large hectares of arable land in Ghana are not ploughed because of traditional beliefs and taboos. For instance, it is forbidden in sacred areas to use machines in cultivation. These together with existing land tenure systems crippled the development process in the country. As an agrarian economy, it is expected that modern and scientific methods of production would be utilized in full to increase productivity, but on the contrary, outmoded traditional and social patterns do not allow the full utilization of Ghana's agricultural resources. This gives rise to the sectors low average growth rate over the past few years as earlier shown on table 3.1.2. Similar situations exist in most fields of production. Even among larger industrial enterprises, it is observed in the course of this project that Research and Development (R&D) into improved *methods of production and marketing is virtually non-existent.*

In South Africa on the other hand the situation is different. The use of science and technology relating to R&D in all sectors of the economy in general is relatively developed when compared to Ghana. The country's agricultural sector for instance is widely regarded as a highly sophisticated and successful sector due to the high level of S&T applied in production. Evidence in support of this view is the fact that South Africa is self-sufficient with respect to most of its major agricultural commodity requirements. At the same time, the sector's small and declining share of GDP (4.7% in 1990 compared to 12% in 1960)[98] can be interpreted as indicating a pattern of secular decline of agricultural production that is

[98] RSA Central Statistical Service: Agricultural Survey from 1960-1992.

consistent with a normal pattern of economic development. This pattern described above is however much dominant among White-ownerships. In contrast, the farming sector in the former homelands such as Ciskei, Transkei and Bophuthatswana and among Blacks in general is unable to meet the subsistence needs of population, with the result that these areas are net food importers and unemployment and poverty is common among them. The dual structure of agriculture in South Africa and the comparatively low productivity of small Black farms is not only the result of genuine economies of scale gained through S&T in the large farm sectors, but of decades of governments that were policy guided - in large measure - by the general political and economic philosophy of White domination known as apartheid. Putting the whole economy together, the high capital-intensity of production and technology enables South Africa agricultural production dwarfs that of the rest of Southern Africa despite a relatively limited natural resource base. In other sectors of the South Africa economy R&D and modern techniques of the western countries are absorbed into the mainstream of the production apparatus and a reasonable self-reliant, and better standards are experienced in terms of productivity.

3.3.2 Political instability and wars

Peace and stability are indispensable to economic development. Experience from developed countries indicate that there is a close relationship between political stability and rapid economic growth and development. A very important characteristic of rapid development in Europe and U.S.A. for example has been the substantial stability of governments. These countries have for some time now supported democracy which to a large extent *guaranteed political stability and has a clear objective of increasing* participation of economically active citizens. This serves as a powerful incentive to maximize efficiency in resource use. The presence of a large number of citizens in decision making process is capable of reducing the level of risks associated with undertaking new economic activities. This stimulates fresh investment activities thereby fostering a dynamic and accelerated growth and development.

Bad governing and political instability have contributed to Africa's overall decline. It is natural that governments choose advisors whom they find politically congenial, and to some extent whose advise they can safely predict, but this does not convert the advisers to agents without responsibility. However, in most African countries, governments turn against their own advisers when their policies are not in agreement with prescriptions of the advisers.

Currently, the perceptions of potential investors in Africa are negative because of violence and acts of political disturbances. In Ghana the level of private investment is very low as compared to rapidly developing countries such as Thailand. The reasons for this are not far fetched. Ghana is seen as potentially unstable country. Since independence in 1957 the country went through several changes in governments mostly by coups d'etat. In these circumstances, assets belonging to private investors were frozen. As a result, businesses are risk averse to the Ghana economy. The 1979 and 1981 coups d'etat are salient examples.

Another experience in the case of Ghana is that governments normally start ambitious projects which are never completed before they are toppled and succeeding governments do not continue with such projects. This amounts to waste of resources. For example, it is discovered that what set Ghana on a far ruinous course was Dr Kwame Nkrumah's[99] grand design for industrialisation in his governments 7-year Development Plan in the 1960's and the system of corruption that went with it.

With reckless speed, Nkrumah pressed ahead with one project after another

[99] Ralph Uwechue, Jonathan Derrick (eds), Africa Today (London: Africa Books Ltd, 1991), p.974.

with factories, steelwork, mining ventures, shipyards, highways, almost any idea that caught his imagination. Some schemes were started simply for reasons of prestige. More and more state enterprises were set up but most of them were badly managed and ran at huge loss. When Nkrumah's government was overthrown in 1966 all these projects were suspended and no effort, whatsoever has been made to continue them even though political organisations who called themselves Pro Nkrumaist have come and gone. Also, a devastating and disruptive effect on development in 1994 was four months of ethnic conflict in parts of the Northern Region of Ghana which constitute a major food growing area. This war believed to be politically motivated, not only caused harm to life and property but also halted development programmes generally in the country because resources were diverted to quell the situation which had previously not been anticipated. One can therefore say under conditions of this nature that governments are themselves the major obstacles to progress.

South Africa on the other hand in terms of politics and development, has its own sphere of influence. After having been internationally isolated and politically castigated for more than a decade, the overall growth rate of the country fell to a level that is much too low to create sufficient jobs for the gainful employment of the growing labour force. South Africa's real GDP growth has been declining since 1965. From 6% in the 1960's it fell to 1% in the 1980's. Growth has been negative since 1982. It plunged after the Soweto uprising of 1976 and after financial sanctions were imposed in 1985. Despite a recovery in 1986-88, growth has been increasingly influenced by continuing political uncertainty and growing social unrest. Growth and development has become increasingly unstable because private sector confidence has been shaken badly by growing political uncertainty and rising violence.

For example, the U.S.A. and many industrial countries are willing to invest in South Africa but concern about high crime rates are discouraging businessmen. They are watching with avid interest the outcome of the new political dispensation.

According to the American Chamber of Commerce in South Africa (AmCham) urgent steps must be taken in order to bring violence under control or this country will 'lose out.' To demonstrate this concern, Amcham conducted a survey of 300 of its members in 1995. Each company was questioned about its security arrangements, the level of crime experienced and what long term suggestions they could make. The results of the survey indicate that crime has assumed serious dimensions in recent times such that tight security measures are even not able to contain the situation. About 80% of the companies interviewed are considering closing down rather than operating in dangerous environments of this nature unless drastic action is taken to check this situation.[100]

Bavaria Motor Works (BMW) has indicated that they are willing to increase their investment in South Africa by R1 billion over the next four years but 'should crime continue to escalate as it has in the past years, this will force *us to reassess the investment.'*[101] *One of the biggest problems that BMW* is experiencing is the high rate of hijacking of this particular type of motor vehicles, hence consumers are now feeling reluctant to purchase them. On the whole, it is observed that crime against life and property is causing serious threat to investment and stability in South Africa. The lack of confidence is causing young potential leaders and entrepreneurs to leave this country and to seek refuge elsewhere.

Finally, it is observed that South Africa investment interest is no more dependent on the return of the country to the world community but rather,

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[100] Philani Mgwaba, "Survey shows crime is affecting investment," Mercury, 9 April, 1996, p.3.

[101] Financial Mail (South Africa), January 26, 1996, p.70.

investors, both domestic and foreign are understandably becoming assertive. They are demanding visible evidence of sound macroeconomic policies, more certainly on future development, and some assurance of reasonable returns, fair treatment and justifiable security. The absence of these investor-friendly environment in the past have been major obstacles to the development process in the country.

CHAPTER 4

SAVINGS AND INVESTMENTS PATTERNS IN GHANA AND SOUTH AFRICA

4.1 INVESTMENT REQUIREMENTS FOR GROWTH

4.1.1 Introduction

The critical role of savings and capital in creating growth has been well established in industrial societies. Many studies point to the very low investment rate in the United States in the 1970s and early 1980s as a prime reason, along with lagging productivity growth, for its low rates or per capita income growth since 1970, relative to Japan and Western Europe. Indeed by 1983, gross domestic investment was but 17% of GDP in the United States, a ratio well below the 20% figure for 1965, and one of the lowest of all industrial countries.[102]

Analysis of the relative contribution of capital to growth in developing countries are neither as numerous nor, owing to data limitations, as conclusive as those of the United States. However, the available sources-of-growth calculations[103] suggest that the impact of capital formation on growth is considered in those countries as well, particularly for the early stages of development.

In any case, while capital accumulation is not viewed as the only panacea for poor countries development problems, it is nevertheless clear that even mildly robust growth rates in incomes can be sustained over longer periods only when societies are able to maintain investment at a sizable proportion

[102] Derived from country tables in IMF, International Finance Statistical Year Book, 1985.

[103] World Bank, World Development Report, 1985 (New York: OUP, 1985), pp.182-83; and 1984 Report pp.226-27.

of GDP. This proportion can rarely be much less than 15% and in some cases it must go as high as 25%, depending on the environment in which capital accumulation takes place and on what rate of income growth is deemed essential to allow progress toward basic societal goals. It is against this background that while investigating the key obstacles to economic development in Africa (with special reference to Ghana and South Africa), particular emphasis is put on saving patterns and investment capacity of these countries. This chapter begins with discussion of the Harrod-Domar production function model used in the analysis of economic development. It demonstrates the essence of investment and capital accumulation to economic growth. Next, savings and investment patterns and their impact on economic development in the respective countries are looked into.

4.1.2 The Harrod-Domar Model

The simplest and best known production function used in the analysis of development was developed independently during the 1940s by economists Roy Harrod of England and Evsey Domar of MIT, primarily to explain the relationship between growth and unemployment in advanced capitalist societies.[104] But the Harrod-Domar model has been used extensively in developing countries as a simple way of looking at the relationship between growth and capital requirements.

The underlying assumption of the model is that the output of any economic unit whether a firm, an industry, or the whole economy, depends upon the amount of capital invested in that unit. Thus if we call output, Y, and the stock of capital, K, then output can be related to capital stock by

$$Y = K/k \qquad (1)$$

[104] Roy F. Harrod, an Essay in Dynamic Theory, "Economic Journal (1939: pp.14-33; and Evsey Domar," "Capital Expansion, Rate of Growth, and Employment," Econometrica (1946): pp.137-47 and "Expansion and employment," American Economic Review 37 (1947): pp.34-55.

Where k is a constant, called the capital-output ratio. To convert this into a statement about the growth of output, we use the notation to represent increases in output and capital, and write

$$\triangle Y = \triangle K/k \qquad (2)$$

The growth rate of output, g, is simply the increment in output divided by the total amount of output, $\triangle Y/Y$. If we divide both sides of equation (2) by Y, then

$$g = \frac{\triangle Y}{Y} = \frac{\triangle K}{Y} \cdot \frac{1}{k} \qquad (3)$$

For the whole economy, $\triangle K$ is the same as investment, I, which must equal savings, S. Hence $\triangle K/Y$ becomes I/Y, and this is equal to S/Y, which can be designated by the savings rate, s, a percentage of national product. Equation (3) can then be converted to

$$g = s/k \qquad (4)$$

But from equation (3) and (4) we know that $g = \triangle Y/Y = s/k$
We can therefore write the final equation as

$$\frac{\triangle Y}{Y} = \frac{s}{k} \qquad (5)$$

Note that the left-hand side of equation (5), $\triangle Y/Y$, represents the rate of change or rate of GNP (i.e. it is the percentage change in GNP).

Equation (5), which is a simplified version of the famous Harrod-Domar[105] equation in their theory of economic growth, states simply that the rate of growth of GNP ($\triangle Y/Y$) is determined jointly by the national savings ratio, s, and the national capital-output ratio, k. More specifically, it says that the growth rate of national income will be directly or positively related to the savings ratio (i.e. the more an economy is able to save - and invest - out of a given GNP, the greater will be the growth of that GNP) and inversely or

[105] Harrod, p.40.

negatively related to the economy's capital - output ratio (i.e., the higher k is, the lower will be the rate of GNP growth).

The economic logic of equation (5) is very simple. In order to grow, economies must save and invest a certain proportion of their GNP. The more they can save and invest, the faster they can grow. But the actual rate at which they can grow for any level of saving and investment - how much additional output can be had from an additional unit of investment - can be measured by the inverse of the capital-output ratio k, because this inverse, 1/k is simply the output-capital or output-investment ratio. It follows that multiplying the rate of new investment, s = I/Y, by its productivity, 1/k will give the rate by which national income or GNP will increase.[106]

The importance of examples to theory is that they deepen understanding of the theory and enhance motivation by displaying the usefulness of theory in specific modern context. Returning to the stages-of-growth theories and using equation (5) of our simple Harrod-domar growth model, we learn that one of the most fundamental "tricks" of economic growth is simply to increase the proportion of national income saved (i.e. not consumed). If we can raise s in equation (5), we can increase $\Delta Y/Y$, the rate of GNP growth. For example, if we assume that the national capital-output ratio in some L.D.C. is, say 3 and the aggregate saving ratio is 6% of GNP, it follows from equation (5) that this country can grow at a rate of 2% per year because

$$\frac{\Delta Y}{Y} = \frac{s}{k} = \frac{6\%}{3} = 2\% \qquad (6)$$

Now if the national savings rate can somehow be increased from 6% to, say, 15% - through increased tax, foreign aid, and/or general consumption sacrifices - GNP growth can be increased from 2% to 5% because now

106. Todaro, M.P., Economic Development (New York University: Longman, 1994), pp.70-74.

$$\frac{\Delta Y}{Y} = \frac{s}{k} = \frac{15\%}{3} = 5\% \qquad (7)$$

In fact, Rostow[107] and others defined the take off stage precisely in this way. Countries that were able to save 15% to 20% of GNP could grow ("develop") at a much faster rate than those that saved less. Moreover this growth would then be self-sustaining. The essence of economic growth and development, therefore, are simply a matter of increasing national savings and investment.

The main obstacle to or constraint on development, according to this theory, was the relatively low level of new capital formation in most poor countries. But if a country wanted to grow and if it could not generate savings and investment at the required rate of national income, it could seek to fill the "saving gap" through either foreign aid or private foreign investment.[108]

The model was criticized for its failure particularly in L.D.C.'s. It didn't work not because more savings and investment is not a necessary condition for accelerated rates of economic growth it is - but rather because it is not a sufficient condition. It worked for Europe because the European countries receiving aid possessed the necessary structural, institutional, and attitudinal conditions (e.g. well-integrated commodity and money markets, highly developed transport facilities, motivation to succeed, an efficient government bureaucracy) to convert new capital effectively into higher levels of output. These co-operating factors are often missing in LDC's but the Rostow and Harrod-Domar models implicitly assumed their existence. Also, L.D.C.'s are part of a highly integrated and complex international system in which even the best and most intelligent development strategies can be nullified by external forces beyond the countries' control. The stages

[107] Rostow, W.W. The stages of Economic Growth: A Non-Communist Manifesto,(London: Cambridge University Press, 1960), pp.11-14.

[108] Todaro, M.P. Economic Development (New York University: Longman, 1994), p.73.

theory failed to take account of this fact.

4.1.3 Investment ratios and economic growth

Investment ratio refers to the fraction of a country's GNP that is set aside for procuring commodities used for further production. Investment ratio *among other things, depend on savings rates of a country. In typical labour-*surplus situation as in LDC's, 6% annual growth in real income cannot be sustained over extended periods in the absence of investment ratios of at least 20% (in the economies emphasizing more labour-intensive approaches) and 25% (in the capital-intensive strategies).[109] Securing investment ratios of even 15% has proven a difficult task for many LDC's including Ghana, and in particular some of the thirty three nations (other than India and China) falling into the World Banks category of low-income countries (see Table 4.1.1., first two columns).

Table 4.1.1: Gross Domestic Investment and Gross Domestic Savings Rates, 1960 - 1983

Category	*Gross domestic investment*[a] (as % of GDP) 1960	1983	*Gross domestic savings*[b] (as % of GDP) 1960	1983	Resource gap[c] 1960	1983
Low-income countries[d]	19 (13)	26 (18)	18 (10)	24 (7)	−1 (−3)	−2 (−11)
Middle-income countries	20	22	19	21	−1	−1
Lower-middle-income	15	22	14	17	−1	−5
Upper-middle-income	22	22	21	23	−1	+1
High-income oil exporters	na	29	na	39	—	+10
Industrial market economies	21	20	22	20	+1	0
East European non-market economies	na	na	na	na	na	na

Source: World Bank, *World Development Report, 1985* (New York: Oxford University Press, 1985), pp. 182-83. World Bank, *World Development Report, 1984* (New York: Oxford University Press, 1984), pp. 226-27.

[a] Gross domestic investment is defined as all public and private sector expenditures for additions to the stock of fixed assets, plus the net value of inventory changes.

[b] Gross domestic savings includes both public sector and private sector savings. It indicates the volume of gross domestic investment financed by domestic sources. As given in this table, gross domestic savings is calculated as the residual after subtracting from gross domestic investment the deficit on current international accounts from gross domestic investment.

[c] Gross domestic investment minus gross domestic savings.

[d] Figures in parentheses exclude China and India.

[109] Malcolm Gills, Dwight H. Porkins, Michael Roemer and Donald R. Snodgrass, Economics of Development. Second Ed. (New York, London: Norton & Co., 1987), p.258.

Nevertheless, all but four of the countries in this group did manage to increase the share of gross domestic investment to GDP over the period 1960 to 1983. For this set of countries as a whole, investment's share rose from 19% in 1960 to almost 26% in 1980 (but from 13% to 18% with China and India excluded). The fifty-nine countries classed as middle *income including South Africa by the World Bank were on the whole able to* increase investment shares but slightly from 1960 to 1983. Among industrial market economies however, gross domestic investment (as percentage of GDP) declined from 21% in 1960 to 20% in 1983. Table 4.1.1 shows that both low- and middle-income countries had achieved, on the average, higher investment ratios in 1983 than even the advanced industrialized countries.[110] It is not surprising, then, that rates of growth in real GDP, at 5.0% for low-income nations and 4.7% for middle-income countries, were about twice as high as the average for the rich industrial countries from 1973 to 1983, which was 2.4%.[111] This further lent support to the fact that economic growth can be achieved by increasing investment.

4.2 SOURCES OF SAVINGS

Developing countries, particularly the poorest thirty-five nations, were able to finance their higher investment-to-GDP ratios by intensified savings from various sources, both domestic and foreign, public and private. Before turning to an examination of recent patterns of investment finance it will be useful to consider a simplified taxonomy of savings.

For a country, the total supply of available *savings* (S) is simply the sum of

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[110] The figures given in table 4.1.1 have been weighted by the size of countries' GDPs. Thus the average for all industrial countries is dragged down substantially by the low investment rates of such large economies as the United States and the United Kingdom.

[111] World Bank, World Development Report 1985. New York: O.U.P., 1985, Appendix Table 2, p.112.

domestic savings (S_d) and *foreign savings* (S_f). Domestic savings may be broken down into two components: *government* or *public-sector savings* (S_{gb}) that arises from any excess of government revenues over government consumption, where public consumption is defined as all current government expenditure plus all capital outlays for military hardware. In addition, in some countries savings of *government-owned enterprises* (S_{ge}) have also contributed to public sector savings. Private domestic savings also arise from two sources: *corporate savings* (S_{pc}) and *household savings* (S_{ph}). Corporate savings is defined as the retained earnings of corporate enterprises (corporate income after taxes minus dividends paid to shareholders). *Household savings* (S_{ph}) is simply that part of household income not consumed. Household savings includes savings from unincorporated enterprises (single proprietorships, partnerships, and other noncorporate forms of business enterprises).

Foreign savings also come in two basic forms: *official foreign savings* (S_{fo}) or foreign aid, and *private foreign savings* (S_{fp}), which may be broken down into two separate components. The first is external commercial borrowing, or *debt finance*, symbolized by (S_{fpd}). Borrowers, including governments, agree to repay the amount of the loan (the principal as well as interest on the loan, in accordance with prearranged schedules. The second major component of *private foreign savings*, direct investment represents equity finance, symbolized by (S_{fpe}). Returns to equity are called dividends, and are paid only when profits are made.

To recapitulate, total available savings may be viewed in the first instance as

$$S = S_d + S_f = (S_g + S_p) + (S_{fo} + S_{fp})$$

For purposes of understanding savings patterns and policies, savings may be desegregated further to

$$S = [(S_{gb} + S_{ge}) + (S_{pc} + S_{ph})] + (S_{fo} + S_{fpd} + S_{fpe})$$

Reliance upon different sources of savings differs greatly between developing countries, depending not only on factors such as the level of per capita income, natural-resource endowments, and sectoral composition of GDP, but also on the nature of savings mobilization policies adopted by particular governments. The patterns of savings is influenced by income of *households, number of persons in a household and by household size in a* specific income group. For the sake of clarity it is necessary to define certain items, i.e., household, and household income.

The Bureau of Market Research[112] defines a household as either a family or group of persons dependent on a common or pooled income and sharing a common table usually under a common roof or a single individual person who is financially independent of any family or household group and usually lives in a separate room or house. It is thus clear that the term household is not necessarily synonymous with the term family. The emphasis is on sharing a common or pooled income and partaking meals in a common table.

Household income is defined as the total earnings of the members of the household and includes any money accruing to members of the household.[113] It would thus include income from retirement and old age pensions. The definition emphasizes the regularity and dependability of the payment of income. Thus moneys accruing from dowries and proceeds from the sale of household and other personal valuables are not regarded as household income.[114]

The balance of this chapter identifies the determinants of domestic savings and its various components. It further examines the influence of savings

[112] University of South Africa, Bureau of Market Research, Income and Expenditure patterns of urban Bantu households, Pretoria Survey, Research Report No.3, Pretoria, 1961, p.62.

[113] UNISA, Annexure A, p.v.

[114] UNISA, p.vi.

and investment on development in Ghana and South Africa.

4.3 CAPITAL FORMATION AND INVESTMENT CAPACITY

4.3.1 Ghana

In Ghana the dominant form of savings come from the household savings which includes savings from unincorporated enterprises. This is because unincorporated business enterprises is by far the dominant form of business organisation in the country. The average saving rate is therefore determined by the annual income of the multiple households in Ghana. A household survey data[115] shows that poverty is rife in the country. This profile explores various characteristics of the poor, defined as living in households with per capita expenditure below two thirds of the mean, as well as the extreme poor, defined as having per capita expenditure below one third of the mean. Using the first poverty line, 35.9% of the total Ghanaian population fall below the threshold.

Turning to sources of income, any poverty alleviation strategy in Ghana must contend with almost 88% of incomes of the poor coming from self-employment. This income comes predominantly from agricultural activities (see Table 4.1.2), which account for about two thirds of income of poor households. Much of this agricultural income comprises consumption of home-produced foods. Only about one third of agricultural income, net of input costs, comes from sales of crops, animals, and their products (see Table 4.1.3). Cereals and cocoa each contribute about 20% of the crop revenue earned by the poor, followed closely by roots/tuber sales, then vegetables (Table 4.1.4). On the whole, the poor in Ghana do not dominate in any particular income-earning agricultural activity, whether this be crop production, livestock or crop transformation. Given the low level of

[115] Boateng, E.O. et al. Household Survey. Ghana Government statistical service, 1990.

agricultural output owing to use of rudimentary tools, income derived from this sector by the defined income group does not support any effort towards savings by the poor. The estimates of income received by the non poor according to the second poverty line indicates that only 20% are above the line. While the marginal propensity to save among the poor is observed to be generally low, the small layer of non-poor are reluctant to save in banks. Evidence from household surveys indicate that large unquantified savings are kept in non-financial forms such as inventories or building materials. The reason for this pattern is that the financial sector savings mobilization is observed to be poor. This performance is attributed to constraints such as under-developed financial infrastructure, lack of competition within and among the financial sector's major subsectors of banking, non-banking institution, the formal rural financial institution and the informal financial sector.

This precarious situation is aggravated by the year-on-year inflation rate, as measured by changes in consumer prices. For example, financial discipline in Ghana in the years prior to 1983 was weak. Large fiscal deficits had resulted in high rates of growth of domestic credit and broad money (less liquid assets), fuelling inflation. Furthermore, some measures taken in the early 1980s to eliminate fraud (including the freezing of certain bank deposits pending investigation for tax liability) had weakened public confidence in the banking system and resulted in the large switch of bank deposits into currency outside banks: by the end of 1983, the share of currency outside banks in total broad money had risen to 47%. In this context, the rate of inflation had accelerated by the early 1980s; averaging more than 70% p.a. during 1980-83, and interest rates had become substantially negative in real terms, while the financial health of the banking system had been severely weakened by the prolonged period of economic decline. This undermined the propensity to save among the people and other corporate bodies.

Table 4.1.2: Sources of income by poverty group (percent)

	All	Non-poor	Poor	All	Non-poor	Poor
Employment income	7.30	8.10	4.40	100.00	86.60	13.40
Agricultural income	55.60	52.90	65.10	100.00	74.00	26.00
Non-farm self-employment income	28.20	29.70	22.80	100.00	82.00	18.00
Actual and imputed rent	1.70	1.60	2.10	100.00	72.90	27.10
Educational scholarships	0.08	0.10	0.04	100.00	89.40	10.60
Remittances received	4.10	4.10	4.20	100.00	77.40	22.60
Other income	3.00	3.50	1.40	100.00	89.70	10.30
All	100.00	100.00	100.00	100.00	77.80	22.20

Source: Boateng, E.O. et al (1990).

Table 4.1.3: Sources of agricultural income by poverty group (millions cedis)

	All	Non-poor	Poor
Revenue from crops	100.13	73.23	26.90
Revenue from transformed crop products	14.50	11.87	2.63
Revenue from animal products	0.12	0.09	0.03
Consumption of home-produced food	217.10	167.50	49.60
Expenditure on crop inputs	-17.22	-13.20	-4.02
Expenditure on inputs for transformed crop products	-0.58	-0.45	-0.12
Expenditure on inputs for livestock rearing	-2.30	-1.89	-0.41
Expenditure on land	-2.69	-1.93	-0.76
Total	309.06	235.22	73.85

Source: Boateng, E.O. et al (1990).

Table 4.1.4: Revenue from the sale of crops by poverty group (percent)

	All	Non-poor	Poor	All	Non-poor	Poor
Cocoa	22.9	23.5	21.00	100.0	75.9	24.10
Oil palm	3.4	2.9	4.90	100.0	62.3	37.70
Plantain	9.6	10.1	7.90	100.0	78.2	21.80
Bananas, oranges, other fruit trees	2.4	2.5	2.30	100.0	75.1	24.90
Groundnut	4.3	3.9	5.70	100.0	65.4	34.60
Pineapple	0.2	0.2	0.04	100.0	94.3	5.70
Cassava	10.5	11.1	8.80	100.0	78.1	21.90
Yam, cocoyam	7.8	6.8	10.70	100.0	64.0	36.00
Maize	16.7	16.6	16.80	100.0	73.6	26.40
Rice	3.3	3.2	3.70	100.0	70.8	29.20
Vegetables	16.2	16.9	14.30	100.0	76.9	23.10
Others	7.7	7.3	9.00	100.0	69.5	30.50
All	100.0	100.0	100.00	100.0	63.1	26.90

Source: Boateng, E.O., et al (1990).

Aid - or Official Development Assistance (ODA) as it is sometimes described[118] - has been more or less evenly divided between bilateral donors on the one hand and international and regional agencies on the other. The latter is dominated by the World Bank group, primarily in the form of credits from its International Development Finance Corporation (IFC) totalled US$308.7 million - 72% of multilateral disbursements and 37% of total disbursements. Among the bilaterals, the principal donors in 1993 were Japan and France who together contributed 36% of bilateral aid. Other major donors were Canada, Germany, U.K. and U.S.A. each of whom provided more than US$40 million.

ODA is conventionally divided between capital investment on concessionary terms (capital aid) and technical assistance. However, the distinction between the two forms of aid is blurred. Capital aid usually includes some element of training and other forms of Technical Assistance, and Technical Assistance programmes almost invariably include allocations for equipment to enable the programmes to operate effectively. As a general rule, capital aid is provided in the form of soft loans and technical assistance as an outright grant. However, some bilateral donors are now prepared to provide capital aid in grant form and some have retrospectively converted aid in the form of loans even for technical assistance, though the terms are usually very soft.[119]

According to the Development Corporation Report for 1992,[120] total aid in 1992 amounted to US$481.1 million, or 7% of GDP. This was as shown

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[118] ODA is the expression favoured by Development Assistance committee of the Organisation for Economic Cooperation and Development (OECD) - not to be confused with the British aid agency - Overseas Development Administration.

[119] For example, no interest payable on IDA credits, though there is a variable service charge, currently at the rate of 0.75% p.a. Repayments are spread over 40 years, including a 10-year moratorium.

[120] Government of Ghana and United nations Development Programme, Development Cooperation: Ghana 1992 (November 1993).

in table 4.1.5, with technical assistance equivalent to about one percent of GDP.

Table 4.1.5: Types of Aid - 1992

Type of Aid	$ million	% of total
Total Technical Assistance	68.9	14.3
free standing	(43.6)	(9.1)
investment related	(25.3)	(5.2)
Investment aid	238.9	49.7
Programme/project aid	155.5	32.3
Food aid	17.7	3.7
TOTAL AID	481.1	100.0

Source: Government of Ghana and UNDP : *Development Cooperation: Ghana 1992* (November 1993).

The major problems associated with aid are slow disbursement of loans and grants, and Ghana's inability to provide matching funds. The lack of transparency on the part of donors and inevitable strings to loans have been additional problems associated with loans.

4.3.1.1 Recent developments

By the early 1970s most countries in Africa were already engulfed in economic crisis which became aggravated through 1980s. This was manifested in exceedingly poor economic performances. This implied a sharp decline in the living standards of the populations. African Heads of state responded to the crisis by the adoption of the Lagos plan of action and the Final Act of Lagos.[121]

[121] UNDP Report on Africa, 1983.

This was intended to bring about fundamental socio-economic and structural changes in the African economies. Against this background feverish attempts were made to initiate policy reforms to stem the decline in various countries.

During most of the 1970s and early 1980s Ghana suffered most in economic deterioration marked by shrinking output, high and accelerated inflation (123% in 1983) and growing external imbalances due to totally depleted foreign exchange reserves. With a population growing at about 3% p.a. per capita income declined by almost half during this period. The productive base of the economy was eroded as a result of emigration of skilled labour. lack of savings and capital formation, and a deterioration of transportation, communication and other infrastructure.

The military juntas who toppled the third Republican Government in 1981 formulated an Economic Recovery Programme and sought support from the I.M.F. and World Bank. The I.M.F. recipe for economic success is one of adherence to economic orthodox. It includes pursuance of currency devaluation, trade liberalization, fiscal and monetary restraint, reduced intervention in agricultural markets, structural reforms in the state enterprises and financial sectors as well as measures to improve public sector management.[122]

Ghana's adjustment efforts since 1983 have resulted in a recovery in output and an expansion in gross national savings and investments, albeit from historically low levels. The recovery in activity was pronounced in the industrial and services sectors, benefitting from the emphasis of policies on rehabilitating and expanding the basic economic infrastructure, through the implementation of I.M.F. recommended policies. These policies contributed also to the increase in savings and investment. The recovery in total

[122] Kapur, et al., p.10.

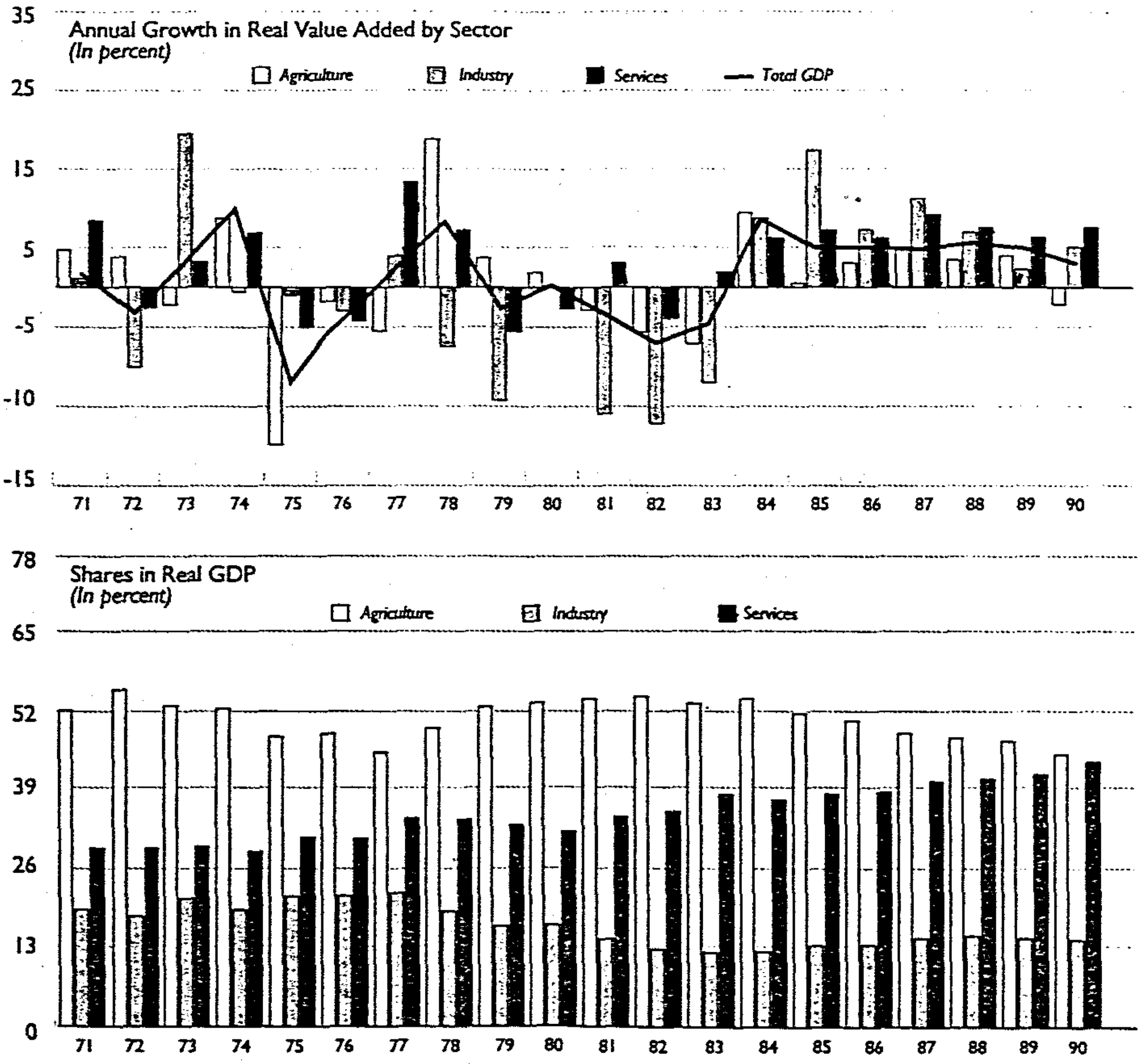
savings and investment in the economy has emanated mainly from the public sector. The private sectors response to a better macro economic environment was initially slow, as it could have been expected after a prolonged period of economic dislocation, but picked up in later years.

After a cumulative decline of about 13% from the early 1970s to 1983, real GDP expanded at an annual average rate of 5.4% during the 7-year period to 1990, resulting in sizable gains in real per capita incomes (Figure 4.1.1 and Table 4.1.6). Since the introduction of the ERP in 1983, Ghana's growth performance has compared very favourably with that of other sub-Saharan African countries and all developing countries in general. The fastest growing sectors since 1983 have been the industrial and services sectors, while the growth of activity in the agricultural sector has been weaker, keeping barely in line with population growth.

As a result of the differentiated growth rates recorded in the various sectors of economic activity, the structural composition of total real GDP has changed markedly. Further readings of figure 4.1.1 and table 4.1.6 show that the share of value added in the services sector in total GDP for instance rose from 38% in 1983 (28% in 1971) to 44% by 1990, owing essentially to the growth of the trade sector emanated largely from government services. The reversal of the early decline in the share of the industrial sector after having fallen from 19% in 1971 to less than 12% in 1983, the share of value added in the industrial sector in total GDP rose to over 14% by 1990.

The share of the mining sector remained modest, at just over 1%, notwithstanding the fact that mineral exports accounted in 1990 for 27% of total export earnings, while the share of manufacturing rose to 9%. The counterpart of these developments was a decline in the share of agricultural output from 53% in 1983 to 45% in 1990, reflecting a contraction of production and a further small decline in the share of the cocoa sector.

Figure 4.1.1: Developments in output, 1971-90



Source: Data provided by the Ghanaian authorities.

Table 4.1.6: Developments in output, 1971-90

	1971–83		1983–90		1971	1983	1990
	Cumulative change	Annual average growth	Cumulative change	Annual average growth	(Shares in real GDP)		
Agriculture, forestry, and fishing	−10.8	−0.9	20.9	2.7	50.5	53.4	44.7
Agriculture and livestock	12.7	1.0	21.1	2.8	27.8	37.1	31.2
Cocoa	−59.7	−7.3	26.1	3.4	16.3	7.8	6.8
Forestry and logging	14.0	1.1	13.1	1.8	4.8	6.5	5.1
Fishing	4.5	0.4	20.7	2.7	1.6	1.9	1.6
Industrial production	−47.5	−5.2	78.0	8.6	18.6	11.6	14.3
Mining and quarrying	−60.9	−7.5	73.8	8.2	2.4	1.1	1.3
Manufacturing	−48.5	−5.4	89.1	9.5	11.3	6.9	9.1
Electricity, water, and gas	141.2	7.6	112.0	11.3	0.3	0.9	1.3
Construction	−50.4	−5.7	40.6	5.0	4.6	2.7	2.6
Services	12.9	1.0	65.7	7.5	28.3	37.9	43.5
Transport, storage, and communications	8.5	0.7	91.0	9.7	3.1	4.0	5.4
Wholesale and retail trade	−34.6	−3.5	109.1	11.1	12.6	9.7	14.1
Finance, insurance, and business services	34.7	2.5	51.4	6.1	5.5	8.7	9.2
Government and other	82.5	5.1	39.7	4.9	7.1	15.3	14.8
Sub-total	−10.9	−1.0	43.8	5.3	97.4	102.8	102.5
minus: imputed bank charges	168.2	8.6	54.2	6.4	1.2	3.7	4.0
plus: import duties	−79.4	−12.3	127.0	12.4	3.8	0.9	1.5
Gross domestic product	−15.6	−1.4	44.2	5.4	100.0	100.0	100.0

Sources: Statistical Service, Accra; and IMF staff estimates.

Gross national investment rose in relation to GDP from a historically low level of 3.7% in 1983 to an estimated 16.0% in 1990. (Figure 4.1.2 and Table 4.1.7).[123],[124] Notwithstanding this progress Ghana's investment ratio in 1990 was only slightly higher than in the early 1970s and lower than the average for all sub-Saharan African countries (about 19%) and all countries (about 20%). The higher levels of investment were financed primarily by increased gross national savings and, to a lesser extent, by high reliance on foreign savings (as measured by the external current account deficit including official transfers). In particular, gross national savings rose from the equivalent of 3.5% of GDP in 1983 to 13.0% in 1989 before easing to an estimated 11.6% of GDP in 1990. At this level, Ghana's gross national savings ratio in 1990 was still somewhat lower than in the mid-1970s and lower than the average for all sub-Saharan African countries (about 13%) and all African countries (17%).[125] The use of foreign savings, on the other hand, rose steadily from 0.8% of GDP in 1983 to 4.4% by 1990.

The increase in the investment to GDP ratio since 1983 reflects largely an expansion in public investment, including the investment of state enterprises financed under the public investment programme. Public investment rose from a mere 1% of GDP in 1983 to 8% by 1988, but eased somewhat to

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[123] Ghana's savings and investment balances are based on IMF staff estimates, derived from the available official national accounts statistics. The national accounts statistics, particularly on the expenditure side, are subject to a large margin of error.

[124] The movements in the nominal investment to GDP ratio exaggerate the decline in the volume of investment during 1970-83 and overstate the increase during 1983-90, as a result of the recorded changes in the relative prices of investment goods. As the bulk of investment goods are imported, the over valuation of the Cedi (local currency) during the period of 1983 had resulted in a sharp moderation in the growth of investment deflator relative to the growth in GDP deflator, while the exchange rate adjustments in the period after 1983 the investment deflator grew much faster than the GDP deflator.

[125] Aghevli, B.B. et al. Review of recent development in savings in developing countries; IMF: 1991.

an estimated 7% of GDP in 1990.[126] Improvements in basic economic infrastructure as well as the wider availability of foreign exchange and the gradual removal of the exchange and trade restrictions, paved the way for a recovery in private investment. Private investment stabilized at about 4% of GDP during 1984-87, but expanded to an estimated 9% by 1990, including a sizable increase in foreign direct investment in the gold mining sector.

The share of buildings and other construction works in total gross fixed investment (in constant prices) amounted on average to over 50% during 1983-88, while the share of machinery and equipment remained at less than 25%. Estimates by the statistical service of Ghana indicate that more than half of real gross fixed investment since 1983 represented capital depreciation. As a result, Ghana's real capital stock in most sectors of the economy has risen only marginally over this period. Overall, the expansion in real GDP was facilitated by increasing rates of utilization of existing idle capacity in both the industrial and agricultural sectors, and a strong growth in low capital intensity service activities.

The improvement in government finances since 1983 has also allowed the government to contribute to the expansion in gross national savings. With the recovery in tax receipts, more foreign grants, and the containment of the pressure on current expenditure, the current balance of the government budget (used as an approximation of the government's savings position) shifted from dissavings equivalent to 2% of GDP in 1983 to savings of almost 6% of GDP in 1989, before easing to 5 percent in 1990. The resumption of growth in real private disposable incomes allowed a gradual increase in the private savings ratio. Private savings rose from 5% of GDP

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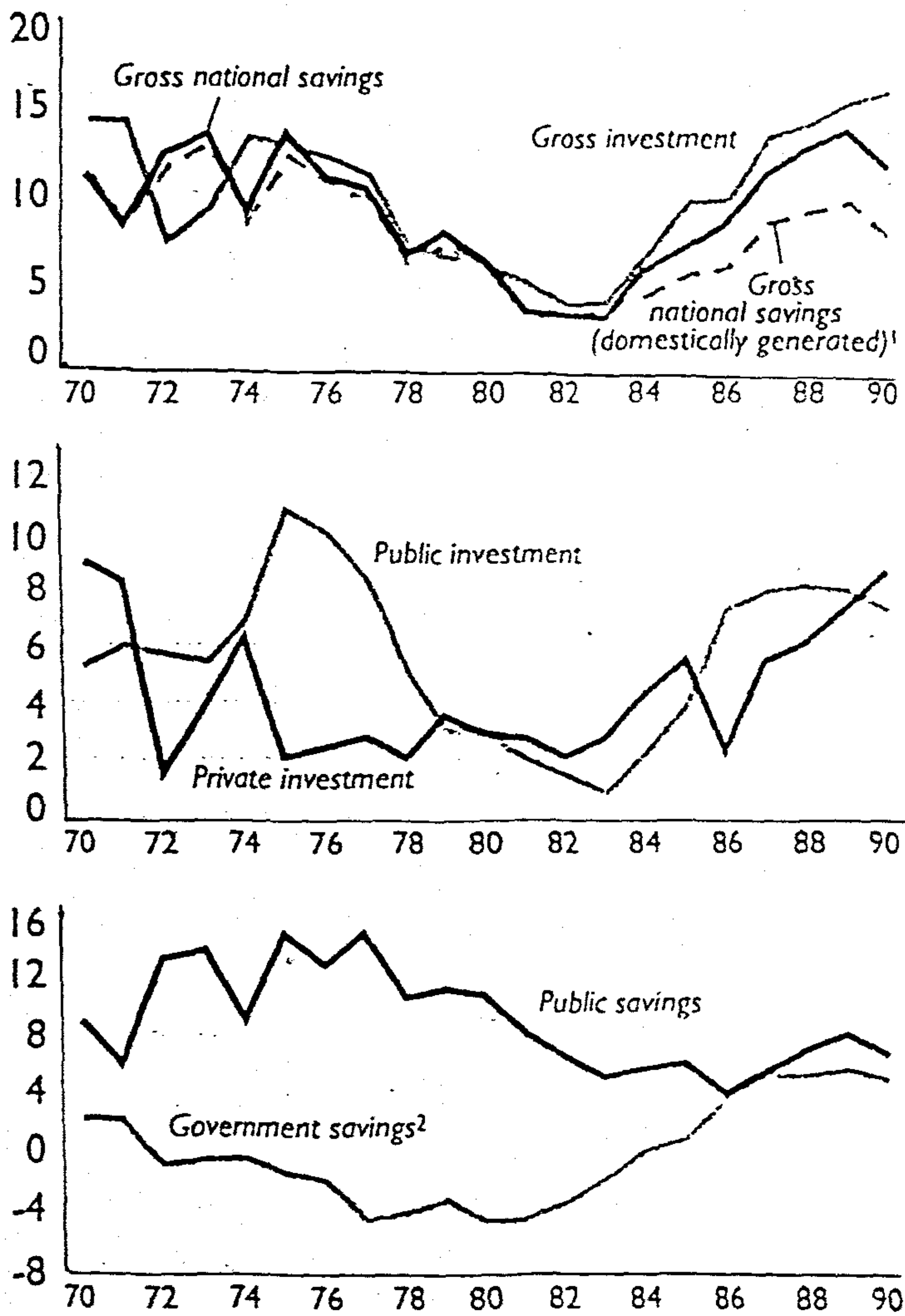
[126] The estimates for public sector investment and savings balances are based on fiscal data, which are expressed in cash terms. Private savings and investment are derived as residual. In view of these approximations, these data only provide rough order of magnitude of sectoral savings and investment balances and they therefore be interpreted with caution.

Figure 4.1.2: Savings and Investment (in percent of GDP)



Sources: Data provided by the Ghanaian authorities; and IMF staff estimates.

[1]Excluding official transfers from abroad.

[2]Including foreign grants.

Table 4.1.7: Savings and Investment, 1970-90 (in percent of GDP)

	1970	1975	1980	1983	1984	1985	1986	1987	1988	1989	1990
Gross disposable national income	97.8	100.2	100.1	100.3	101.4	100.5	102.0	104.4	104.1	105.8	105.4
Total consumption	86.6	86.3	95.1	96.7	93.4	92.4	92.0	92.8	91.7	92.1	93.8
Private consumption	73.7	73.3	83.9	90.8	86.1	83.0	80.9	82.8	81.7	82.9	84.9
Government consumption	12.8	13.0	11.2	5.9	7.3	9.4	11.1	10.0	10.0	9.2	8.9
Gross national savings[1]	11.2	13.8	5.0	3.6	8.0	8.1	10.0	11.7	12.5	13.7	11.6
Of which: domestically generated[2]	10.8	13.4	4.5	3.3	6.2	6.5	8.0	9.1	9.1	9.5	7.8
Private savings	8.9	15.6	9.9	5.4	7.8	7.0	6.1	6.1	7.2	8.1	6.7
Government savings[3]	2.3	−1.8	−4.9	−1.8	0.1	1.1	4.0	5.5	5.2	5.6	4.9
Gross investment	14.1	12.7	5.6	3.7	6.9	9.6	9.7	13.4	14.2	15.5	16.0
Public investment	5.3	10.7	2.8	0.9	2.5	4.2	7.3	7.9	8.0	7.8	7.3
Private investment	8.8	2.1	2.9	2.9	4.4	5.4	2.4	5.5	6.2	7.7	8.7
Statistical discrepancy[4]	−0.1	−0.7	0.8	−0.6	−2.1	−1.0	−1.8	−0.4	—	—	—
Gross national savings, adjusted for statistical discrepancy	11.1	13.1	5.8	3.0	5.9	7.1	8.2	11.3	12.5	13.7	11.6
Of which: domestically generated	10.7	12.7	5.3	2.6	4.2	5.4	6.1	8.8	9.1	9.5	7.8
Public sector financial balance	−3.0	−12.5	−7.6	−2.7	−2.3	−3.0	−3.3	−2.4	−2.8	−2.2	−2.4
Government savings[3]	2.3	−1.8	−4.9	−1.8	0.1	1.1	4.0	5.5	5.2	5.6	4.9
Public investment	5.3	10.7	2.8	0.9	2.5	4.2	7.3	7.9	8.0	7.8	7.3
Private sector financial balance	0.0	12.9	7.8	1.9	1.3	0.5	1.8	0.3	1.1	0.4	−2.0
Private savings (including statistical discrepancy)	8.8	14.9	10.7	4.8	5.7	5.9	4.2	5.8	7.3	8.1	6.7
Private investment	8.8	2.1	2.9	2.9	4.4	5.4	2.4	5.5	6.2	7.7	8.7
External current account balance	−3.1	0.4	0.2	−0.8	−1.0	−2.5	−1.5	−2.1	−1.7	−1.8	−4.4

Sources: Statistical Service, Accra; and IMF staff estimates.

[1] Defined as gross national disposable income minus total consumption

[2] Gross national savings minus external official transfers

[3] Central Government current budget deficit; the latter is estimated as total revenue and grants (broad coverage) minus current expenditure and special efficiency.

[4] Discrepancy between the national accounts estimates of external balance on goods and nonfactor services, net factor payments, and transfers, and the balance of payments estimate of the current account balance.

in 1983 to almost 7% by 1990, though subject to sizable fluctuations from year to year.

The expansion in total gross national savings since 1983, and in particular the gains in government savings, have benefited from large inflows of external grants provided by foreign donors in support for Ghana's adjustment efforts; these grants rose from negligible levels in 1983 to 4% of GDP by 1990. Excluding official grants, domestic savings, which are perhaps more indicative of the gain from Ghana's adjustment policies, increased from 3% of GDP in 1983 to almost 10% in 1989, but fell back in 1990 to an estimated 8% of GDP.

Overall, the speed and strength of the private sector response so far analysed have not been fully satisfactory, reflecting perhaps the initial very poor state of the economy and the time needed to rebuild confidence in the sustainability of new policies and in the outlook for the economy. The protracted economic decline prior to 1983 had left the private sector in Ghana in a state of devastation from which it was difficult to recover within a short time. Real wage earnings and other private incomes had fallen sharply to levels barely covering the basic needs of the population. Private businesses, on the other hand, had been disrupted by the acute shortages of imported inputs and spare parts, the proliferation of direct government controls, and the steep decline in real aggregate demand in the economy, resulting in low rates of capacity utilization, poor maintenance of the capital stock, and the emergence of financial imbalances for the business sector.

Starting from the weak financial position, many private enterprises found it difficult to adapt to the adjustments in the exchange rate and other relative prices in the economy, notwithstanding the new profitable business opportunities opened to them. As a result of the policy reforms, several private and state enterprises that in the past had been shattered by domestic and foreign competition were unavoidably forced to rationalize their operations or ultimately to go out of business.

The recovery in real GDP growth following the inception of the economic recovery programme in 1983 allowed for gains in real private national disposable income per capita of about 2.8% p.a. These gains however went to a few and permitted an expansion in their real private consumption expenditure of about 2.5% p.a. and an improvement in private savings, as a ratio to GDP. In real terms, gains from the ERP did not have trickle-down-effect on the majority of the population especially rural dwellers who depended largely on agriculture for their living.

A number of institutional and structural constraints were noted during this research to have restrained an even stronger response of private savings and the trickle-down-effect of the ERP. First, the high rate of population growth limited the expansion in real per capita incomes; the actual rate of increase in the population is officially estimated at 2.6% a year. Second, the low level of confidence in the banking system by the public at large combined with the negative real interest rates on bank deposits that have prevailed virtually through the period since 1983, discouraged the expansion of *financial savings; these problems were exacerbated by the high time costs* involved in depositing and withdrawing money from commercial banks and, until recently, the limited range of financial instruments available to private investors. Third, high inflation during this period, even though it was lower than in early 1980s, may have contributed to the hoarding of durable consumer goods as a hedge. Finally, with the exception of cash crops such as cocoa, no incentives were given to other groups of farmers in the agricultural sector. They produced at the subsistence level and sold their proceeds to the urban dwellers at competitive prices due to trade liberalization whereby similar food stuffs are imported.

Similarly, a more vigorous response of private investment in sectors other than gold mining and cocoa appears to have been impeded by a number of institutional, structural and financial constraints, inherent to Ghana's present stage of economic development. In particular, the dearth of medium-term financing, the rudimentary state of the capital market, and weaknesses in financial intermediation in general made it difficult for private business to find means of financing other than short-term bank credit. The generally low profitability of many private firms and the low overall level of domestic savings limited the prospects for investment financing from their own resources. These difficulties were compounded by the .complexity and limited transparency of the legal and administrative framework.

Finally, *distortions in the tax treatment of capital and investment income*, particularly the high capital gains tax and the withholding tax on dividends, acted as a disincentive to new investment and mergers and acquisitions and may have retarded the necessary restructuring of many private enterprises.

Overall, while progress has been made since 1983, domestic savings and investment in Ghana have not yet reached the levels required to sustain a satisfactory rate of economic growth and generate adequate new employment opportunities for Ghana's rapidly growing labour force. In view of this, policies must aim at removing impediments to a vigorous expansion in private sector activity in all sectors of the economy, while strengthening further government finances to realise the much needed spread effect of development programmes towards improving the living standards of the majority of the people.

4.3.2 South Africa

South Africa has one of the most inegalitarian income distribution in the world. It is observed that incomes in South Africa vary widely according to race, discussions of income distribution have mainly concentrated on the distribution of income shares by race,[127] which provides some insight into the investment capacity of the country. As table 4.1.8 shows, the share of overall income accruing to the White minority has declined steadily over the past two decades while that accruing to the Black majority has increased correspondingly.

If one examines the evolution of income shares by racial group alone, however, one can misconstrue the degree to which income distribution might be coming more even, because such measures disregard the different rates of population growth among the various groups. For this reason, it is more instructive to focus on estimates of the Gini coefficient,[128] which provide a more direct measure of income distribution between the individual members of society. Wilson and Ramphele (1989) (hereinafter, the Carnegie report),[129] quoting de Lange, Ronkens, and Van Seventer (1986), report a Gini coefficient of 0.65 for South Africa in 1976, 0.66 in 1978 and 0.57 for 1980, that of 1978 was the highest of any of the 57 countries in the world for which data were available.[130]

Using data available from South African Bureau of Market Research a Gini coefficient time series based solely on between-race inequality was constructed as shown in table 4.1.9. The calculations in table 4.1.9 support the notion that inequality in South Africa is overwhelmingly the result of income differentials between the races. In 1980, for example, the amount

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[127] Abedian, I. and B. Standish: "Poor Whites and the role of the State: The Evidence", South African Journal of Economics, Vol.53 (June 1985), pp.141-65.

[128] The gini coefficient is a commonly-used measure of inequality derived from the disparities between proportions of income received by household or individuals within narrowly-defined income bands and the corresponding proportions that such groups constitute within the total population. In a society in which all individuals/households receive identical incomes - perfect quality - the gini equals 0. In a society in which a single individual/household receives everything - perfect inequality - the gini equals 1. Both extremes, 0 and 1 are only theoretical values. They do not exist in practice.

[129] Carnegie report (1989).

[130] Carnegie report (1989).

Table 4.1.8: Income shares over time (in percent of total income)

	1960	1970	1980	1988
White	72.5	71.1	64.9	53.9
Asian	2.1	2.4	3.0	3.2
Colored	5.5	6.7	7.2	6.6
Black	19.9	19.8	24.9	36.3

Source: Development Bank of Southern Africa.

Table 4.1.9: Gini coefficients assuming income equality within racial groups

Year	Gini Coefficient Personal Income	Gini Coefficient Personal Disposable Income
1960	0.55	0.54
1965	0.56	0.55
1970	0.53	0.51
1975	0.49	0.47
1980	0.50	0.49
1985	0.51	0.47
1987	0.48	0.45

Sources: Nel and Van Wyk (1984); and IMF staff estimates.

of inequality between the races generated a Gini coefficient of 0.50, while the total amount of inequality in the economy generated a Gini coefficient of 0.57. These calculations also suggest that the marked slow-down in growth during the 1980s led to a significant slowing in the pace of income equalization compared with that of the previous decade.

Even though with no complete and accurate data available, it can be estimated with some level of certainty that since the mid-1980s, and more especially since the early 1990's the labour market distortions and rigidities that were an inherent part of the apartheid system have gradually eased through transformation and affirmative action. Over the same period, the share of non white labour income in total GDP has increased significantly and the gini-coefficients as shown on table 4.1.9 may have fallen further. The principal factor in the improvement in labour income distribution over the past two decades has been the reduction in the gap between white and non white wages for jobs requiring similar skills, which is estimated to have declined from 90 % at beginning of the 1970s to about 14 % at present.

This suggests that further improvements in income distribution between the races in the period ahead will have to derive mainly from better training and employment opportunities for non whites rather than from the elimination of the remaining wedge between wages for different racial groups.

The importance of distribution of income among the various racial groups and the impact on saving capacity can be better understood by contrasting table 4.1.8 with table 4.1.9. The latter table indicates that personal disposable income disparities among races is decreasing. While the former shows increase in income shares in favour of the Blacks over time. While this is particularly welcomed by Blacks as a whole, when one considers the differences in income per capita between Blacks and other racial groups over time and also between Blacks living in different parts of the country, huge striking differences are observed.

Table 4.1.10: Percentage shares of personal income and employee remuneration by race and ratios of per capita income

	Africans	Asians	Coloreds	Whites
Personal Income				
1960	22.4	2.0	5.5	70.1
1970	22.3	2.4	6.3	69.0
1975	25.6	2.8	7.2	64.4
1980	28.3	3.2	7.5	61.0
1987	31.5	3.6	7.9	57.0
Employee Remuneration				
1975	31.6	2.7	8.8	56.9
1980	35.6	3.0	8.4	53.0
1987	38.0	2.7	7.6	51.7
1992	38.5	3.4	8.4	49.7
Ratios of Per-Capita Income				
1960	1.0	2.1	1.9	12.3
1970	1.0	2.6	2.1	12.8
1975	1.0	2.8	2.1	10.9
1980	1.0	2.9	2.1	10.0
1987	1.0	3.2	2.1	9.5

Sources: Bureau of Market Research (1989) and World Bank staff estimates based upon data taken from South African Labor Statistics (1993).

Table 4.1.10 indicates some evidence that income inequality across the races has narrowed over the past two decades. The share of personal income accruing to Whites has declined substantially since 1970, while the corresponding share of Blacks increased from 22.3% in 1970 to 31.5% in 1987. While this can be partly explained by higher population growth among Blacks (refer to table 3.1.6), it has been accompanied by a clear narrowing of the differential in per-capita incomes between Whites and other groups perpetuating poverty among Blacks in particular.

Traditionally, poverty has been measured in reference to some absolute living standard. A number of such measures, differing largely in coverage, have been proposed for South Africa (see table 4.1.11). Among the more striking findings of the Carnegie report is that in 1980 approximately 50%

of all South African households (including those in the TBVC states)[131] and 60% of all Blacks (80% of those living in the reserves) lived below the minimum living level (MLL), whereas in 1989, 40% of South Africa's population (excluding the TBVC) is estimated to have lived below the MLL. A further finding is that in 1983-84 poverty ranged from 23% to 68% (measured as the percentage of households earning less than the household subsistence level) in three Black townships in Natal province.[132]

Table 4.1.11: Alternative measures of poverty, 1980-85 (in rand per month)

	1980	1985	Coverage
Poverty datum line or housing subsistence level	195	345	Food, clothing, fuel/lighting, washing/cleansing, and transport
Minimum living level (MLL)	189	350	As above + tax, medical, education, household
Supplementary living level	240	446	MLL + recreation, personal care, pension, medical

Source: Carnegie report (1989).

[1] These figures are compiled from urban centers and refer to average household sizes (5.45 persons per household). In current U.S. dollar terms, these estimates of minimum living standards ranged from $205 to $255 in 1980 and from $125 to $160 in 1985. Rural minimum living standards are estimated to be fairly similar to those in the urban centers.

An examination of the vulnerable group, viz Blacks reveals that hitherto, they generally depended on income transfers for their subsistence since the rural areas of the reserves are simply incapable of sustaining the population densities that have been imposed upon them.[133] This group have few assets, their incomes are highly susceptible to outside shocks, they do not enjoy the benefit of a dependable safety net and the incidence of absolute poverty is concentrated heavily among them. For South Africa as a whole,

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[131] The Transkei, Bophuthatswana, Venda and the Ciskei.

[132] Carnegie Report (1989).

[133] Under apartheid, the various land acts restricted the area where Blacks could legally own land to only 13% of the country, and these areas were generally regarded as being below average in agricultural potential.

it has been estimated by the Bureau of Market Research[134] that 44.8% of the population receives incomes below the poverty line in 1989. Among Whites, the corresponding proportion was 1.6%, among Blacks, 52.7% were below the line. Asians and Coloureds represented an intermediate picture with rates of 10.7 and 28.1% respectively. Even among Blacks, poverty is much less severe in the large metropolitan areas where the poverty rate was estimated at 24.3% compared with proportions consistently above 60% in rural areas and the other periphery (TVBC).

An examination of table 3.1.7 shows that Blacks form a large proportion of the population (75% in 1991). As an indication of how national income is distributed we observed in section 3.2.1 that Whites have personal incomes per capita 9.5 times those of Blacks, 4.5 times those of Coloureds and 3.0 times of Asians. This leaves a large fraction of the population below the poverty line, indicating how savings effort of the disadvantaged is affected giving the high MPC among them. But the absence of investor friendly environment such as political stability has undermined domestic investment from the racial groups with higher incomes.

4.3.2.1 Investment pattern

Investment in South Africa has been at least comparable to other countries at its income level, relative to output and to the existing capital stock. Total investment in South Africa grew steadily from the immediate post-war period until the middle of the 1970s. What is remarkable is the high level of the investment-to-GDP ratio in the country compared to Ghana. This peaked at an average of 26% in the 1971-76 period - a higher ratio than that of Ghana following import-substitution development strategies and comparable only to countries that were following export-promotion growth strategies such as Korea.

[134] Bureau of Market Research, R.S.A. (1989), Table 2.13.

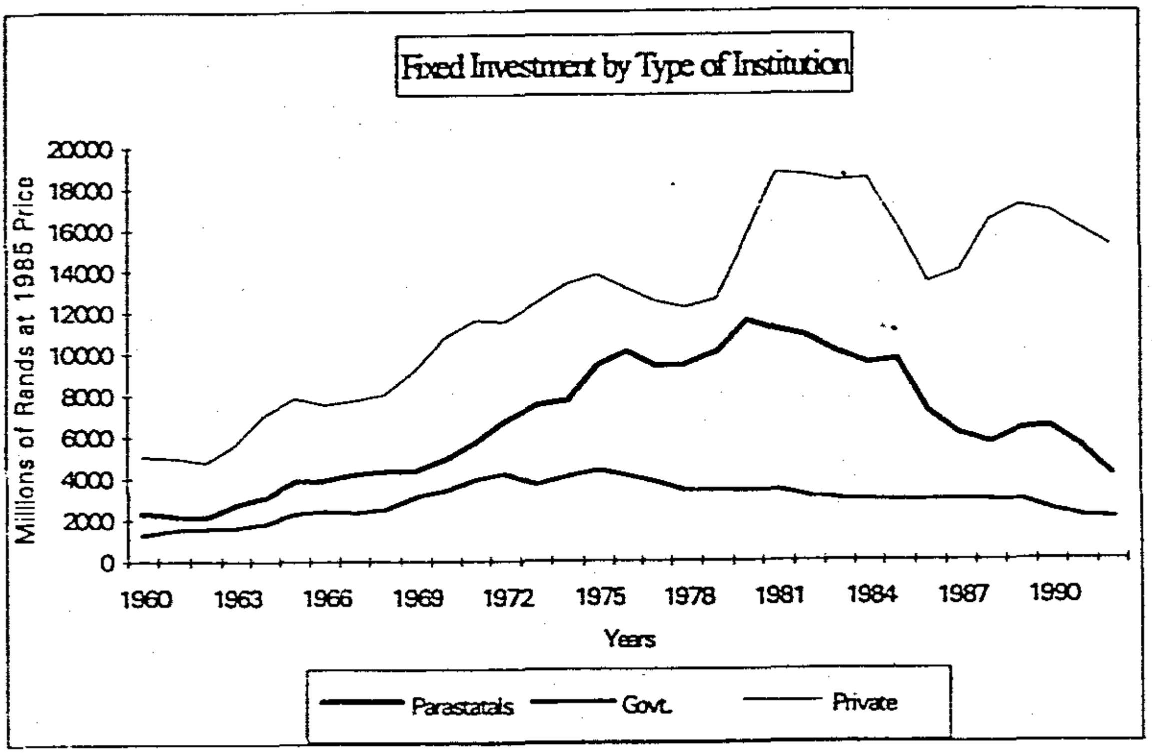
The behaviour of total investment hides a range of different behaviour patterns on the part of different institutions. Here, it is particularly important to distinguish between the government and the parastatals.[135] The study discovers that public investment grew rapidly from 1946 till 1979-1980. Growth was especially high during 1961-65 and 1971-75 when the annual average real growth rate exceeded 10%. After 1980, the trend in public sector investment growth rates averaging -3.3% and -6.5% over 1981-85 and 1986-91 respectively.[136] A closer inspection of the sub-components of public investment, as in Figure 4.1.3, shows that investment by government was the first indicator to start falling during the 1976-1980 period, followed by a decline in parastatal investment only after 1979. This fall in parastatal investment became more accentuated after 1985. Movements in private investment closely parallel those of the parastatals, but show a more clear-cut response to the recessions and temporary recovery in the economy experienced since 1985.

Public investment changed over time in response to policy decisions and economic stimuli that affected risk and expected profitability. As to how public investment benefitted the society in terms of development and improvement in living standards in the country, it is observed that the programme had three main aims: to extend and develop infrastructure mainly in areas reserved for Whites; to expand public utilities selling services to the household and industrial sectors; and to promote self-sufficiency in areas likely to be affected by sanctions. In the early and mid- 1970s, investment in railways was still an important component. After 1976, in the aftermath of the Soweto riots, investment by public authorities (government and public

[135] The term "parastatals" here refers to both the Public Business Enterprises such as Transnet and the Post Office and Public Corporations such as ESKOM. While both categories of parastatal are controlled by government, through ownership or the right to appoint members of the board, Public Business Enterprises, unlike Public Corporations, have to seek the approval of the legislature for their budgets.

[136] Fallon, P. et al., South Africa Economic Performance and Policies. (Washington: IMF, 1994), p.54.

Figure 4.1.3: Fixed investment by type of institution in RSA (1960-1990)



business enterprises combined) dropped sharply and has never regained its former level. (See figure 4.1.3.)

World Bank research on parastatal investment in South Africa,[137] suggests that parastatals also respond to changes in economically-relevant variables. Heavy parastatal investments were guided by optimistic growth projections and led to saturation in White infrastructure. Movements in the real interest rate had some effect. Before 1985, parastatals had borrowed substantially from abroad with forward cover for exchange rate movements provided by the Reserve Bank. The financial sanctions imposed in 1985, forced parastatals into the domestic financial market at a much higher interest rate than they had been paying. This along with growing excess capacity, may further explain why parastatal investment dropped so profoundly.

[137] Kahn, B., Senhadji, A. and Walton, M. 1992. "South Africa: macro economic issues for the transition", World Bank informal discussion papers on Aspects of Economy of South Africa, No.1.

Finally, following a positive response to domestic demand, private sector investment started increasing since 1960 (see figure 4.1.3). This indicates that the public sector carried important consequences for other parts of the economy. Expansionary policy on the part of the government or parastatals tended to stimulate private investment through increasing of aggregate demand. Unlike Ghana, private savings have always accounted for the bulk of South Africa's gross savings although the public sector (government, public business enterprises, and public corporations) has always maintained a positive level of gross savings that has fluctuated around 5% of GDP. This pattern of savings as mentioned above respond not to changes in GDP as such, but rather to changes in disposable private income. This in turn positively influenced investment in the country.

However, over the last five years, while private investment has slumped, fiscal deficit has risen. The most likely explanation for this is that the confidence of the private sector has been shaken badly by growing political uncertainty and the rising evidence of violence. This explanation is certainly consistent with the results of business confidence surveys.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTORY REMARKS

Although Ghana and South Africa differ greatly from one another, the one thing they have in common is that the majority of their peoples have a relatively low standard of living. It is this standard of living which underlies most of the characteristics of underdeveloped countries. Ghana and South Africa exhibit several characteristics which deserve to be borne in mind for purposes of the present study. This chapter begins with a summary of these characteristics and then proceeds to suggest ways by which the two countries may improve and enjoy higher standards of living. The characteristics mentioned above serve a useful purpose in indicating the socio-economic framework within which the analysis of the obstacles to economic development in Ghana and South Africa are made.

5.2 CONCLUSIONS

Several conclusions emerge from the analysis of data that has been marshalled in this study. Only the major ones are stated hereunder:

Both Ghana and South Africa are characterised by high rates of population growth with most of the populations living in rural areas rather than in towns. The problem with population growth is not so much overcrowding as the strain it imposes on resources needed to provide basic facilities in the countries under study.

As already stated, Ghana and South Africa have salient features of developing countries. The fast growing population has resulted in high ratio of dependents to working population. It also bears much on basic facilities such as water and sanitation, education, and medical services. As a result, the level of morbidity generally in the two countries is high. Also, the high population rates imply higher rates of entrants into the labour market yearly. However, low growth rates of these economies are not able to match the population growth rates. The ratio between these two is estimated to be 1:1.5. This implies high unemployment, poverty and low standards of living.[138]

In order to survive majority of people depend on heavy manual labour especially in the rural areas. Poor nutrition, lack of protection from preventable diseases, contaminated water and sanitary living conditions result in relatively low life expectancy and high child mortality. Even though this has been the general situation of the population problem as observed in the two countries, the precarious situation of Ghana is more severe than that of South Africa in the sense that the rate of population growth is higher (3% compared to 2.5% for South Africa), sanitary conditions are appalling, and a comparatively weak health delivery system. Furthermore, the majority of the economically active population of Ghana are mainly engaged in subsistence agriculture and micro-enterprises at the sub optimum capacity. Among rural dwellers and Black people in South Africa, the condition as depicted for Ghana are similar. The difference is that rural farmers in Ghana live on their produce and are not net importers of food. Urban dwellers live in relatively better conditions in South Africa, as compared to those in Ghana.

As evident from the preceding chapters, both countries are rich in terms of natural resources but South Africa in relative terms is much richer than Ghana with its variety of minerals. Although it is wrong to generalize for both countries for variety of reasons, the lack of rainfall and incorrect utilization of the natural environment has contributed to the lack of further

[138] See Chapter 3, section 3.2.2.

economic development. In Ghana, over-grazing, deforestation, soil erosion and depletion of the soil are common. Also, most of Ghana's vast arable land is not put in any use. It is observed that in both countries natural wealth being produced is to a considerable extent not retained within the countries. This situation is created because of the lack of funds for investment and lack of basic knowledge required to do particular work efficiently necessitating a call for external assistance. South Africa's situation is better than that of Ghana with regard to exploitation of resources. For example, in Ghana all mining activities are undertaken by foreign organisations including South Africans. This is not so for South Africa which has some of its own firms involved in mining ventures.

In terms of human resources majority of the people in both countries lack knowledge required to do particular work efficiently. As a result the principal source of employment are small holder farming, small scale fishing and small-scale trading in Ghana. Also in South Africa, micro-enterprises are prevalent. In addition, most unskilled labour work as labourers in mines and factories, under-utilized or unemployed. Labour input growth has failed to keep pace with capital growth and this has been one source of reduced economic growth in both countries.

In general there seems to be widespread lack of clear objectives and weak leadership at administrative levels in both countries. Many organisations lack expertise in critical areas but are over-staffed at the lower semi-skilled and functional levels. There is lack of fit between the kind of education or training received and what is needed on the job. Reasons for this is that in Ghana poor conditions of service have created low morale and disincentive resulting in loss of expertise to developed countries. Among those who remain in the system, the frustration created by these conditions have led to bureaucratic attitudes, corruption and behaviour which are generally unresponsive to the needs of development process. Despite the rise in educational attainment in South Africa skill accumulation has been inadequate and there has been a growing imbalance between the nations stocks of physical capital and human capital.[139]

Economic infrastructure are better developed in South Africa when compared with that of Ghana. But when compared with developed countries, the urgency of infrastructural requirements can be immediately seen. Ghana has different and fewer social and economic services such as housing, water supplies, sanitary services, schools and welfare and recreational facilities and transport as compared to South Africa but these services are more concentrated in areas of particular racial groups in the latter. Generally, as already indicated social economic infrastructure are restricted to urban areas in both countries.

For Ghana, the physical condition of the economic infrastructure viz. energy, transport and communication facilities remain generally poor and services provided are inadequate and unreliable. In its modern cities, South Africa ranks among the four or five countries in the world in per capital spending on infrastructure. Yet Black urban areas and rural areas have worse facilities on average than other developing countries with similar per capita income. This is evident in such indicators as the extent of squatting, poor access to water supply and inadequate sanitation. It can be concluded that past apartheid policies dispersed and fragmented settlements of the disadvantage racial groups.[140]

With regard to income, Ghana is a low income developing country and South Africa is classified in the upper middle income bracket for developing countries. But on a whole, poverty is rife in both countries. It has been reported in the previous chapter that estimated per capita incomes in the countries under study are lower when compared to developed countries.

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[139] See chapter 3, section 3.2.3.

[140] See Chapter 3, section 3.2.3.

Although there is recognition and awareness that income per head in South Africa is higher that in Ghana, the distribution pattern as indicated by a measure of gini coefficient, show that the distribution is skewed in favour of few minority notably Whites and people living in urban areas. It also favours the urban elites and tycoons in Ghana. As a result poverty is rife among the majority of the population in both countries. Given this, savings as a percentage of private disposable income on average are low. The position is more acute in the case of Ghana. Several factors emerge from this study as cause of this situation:[141]

M.P.C. among the population is very high owing to the high dependency ratio.

In the banking sector, low or negative rates of return on deposits and the high transaction costs have been deterrents for savers. In this context, the rate of inflation had accelerated and interest rates had become substantially negative in real terms and savings are rather kept in non-financial assets such as building materials.

The financial sector savings mobilization is observed to be poor. This performance is attributed to constraints such as under-developed financial infrastructure, lack of competition within and among the financial sector's major subsectors of banking and non banking institutions.

The state is seen as vehicle for personal gain and resources are siphoned from the crumbling infrastructure. Various acts of financial indiscipline and inefficiency in the discharge of functions and in the management and use of resources in the public sector have hampered governments effort to save toward investments.

[141] See chapter 3, section 3.2.1.

With South Africa on the other hand, among the more striking findings is that approximately 50% of all South African households and 60% of all Blacks lived below the minimum living level in 1980. In 1984 poverty ranged from 23% to 68% among Blacks. For South Africa as a whole, 44.8% of the population received income below the poverty line in 1989. Just like Ghana, Blacks depended on subsistence incomes since the rural areas of their reserves are simply incapable of sustaining the population densities that have been imposed upon them.

The fact that savings are generally low as discussed in the preceding chapter imply a devastating effect on investment pattern in both countries.

As the Harrod-Domar model suggests, if increase in savings rate is made possible, G.D.P. growth can be increased. The decrease in taxes and general consumption sacrifices have not been sufficient in increasing the saving rate in Ghana so it was necessary to fill the saving gap through foreign aid. As mentioned earlier, foreign aid enabled gross national savings rose from 3.5% of G.D.P. in 1983 to 13.0% in 1989 before easing to 11.6% of G.D.P. in 1990. At this level, it was still lower than expected. However, it enabled investment in relation to G.D.P. rose from 3.7% in 1983 to 16% in 1990 which was but below the average for sub-Saharan African countries (19%). Beside this, institutional and attitudinal conditions to convert new capital effectively into higher levels of output for development were missing.[142] On the other hand, investment in South Africa has been at least comparable to other countries at its income level. what is remarkable is the high level of the investment to G.D.P. ratio in the country compared to Ghana. Unlike Ghana, private savings have always accounted for the bulk of South Africa's gross savings although the public sector has always maintained a positive level of gross savings that has influenced investment in the country. However, the past four years have

[142] See Chapter 4, section 4.3.1.

witnessed sharp decline in private sector investments arising from growing political uncertainty.[143]

It has been identified that outmoded traditional and social patterns have worked against development process to some extent. Traditional and habitual ways of doing business for example vary from society to society, and not all are equally conducive to productivity. It is observed that in both countries, personal considerations of family, past favours or traditional friendship or other forms of discrimination are more important than market incentives in motivating behaviour. In addition to this, unscientific beliefs and practices still abound in Ghana. Consequently, science and technology has a low priority rating in the eyes of policy makers and managers. There is little understanding among the general population of the value of science and technology and widespread belief in supernatural explanations. The low level of literacy is a constraint on the adoption of more scientific attitude by the population.[144]

In terms of distribution of the nations wealth, inequality in South Africa is beyond the level expected in a country at its level of development. While income and social indicators for the White population such as infant mortality and life expectancy at birth are in the range observed in developed countries, those of other races especially Blacks are broadly comparable with low income developing countries such as Ghana.

Development indicators show that access to health care, safe drinking water and sanitation is inadequate especially in rural areas and in consequence, morbidity, life expectancy and infant and child mortality are unacceptably high in both countries. Development records of the countries under review have been characterised by long-term decline in the pace of expansion. The

[143] See Chapter 4, section 4.3.2.

[144] See Chapter 3, section 3.3.1.

annual average growth rates in real G.D.P. have declined steadily.[145]

Democracy exists on paper and not in practice. This is particularly obvious in the case of Ghana where dictators and former military juntas now dress in civilian clothes continue to act against the wish of the people and economic forces. In South Africa, democracy has gained a sound footing in view of the fact that the 1994 general elections were considered to be free and fair but acts of political instability and violence are frustrating progress.[146]

Finally, it is worthwhile to point out that, whereas the expected trickle-down and "spread-effect" of investment in South Africa is much to the advantage of a section of the population notably the White race and urban dwellers, in Ghana these benefits go to the urban elites and overseas investors.

In a nutshell, the low level of economic development in Ghana and South Africa as the outcome of this investigation shows can not be explicable in terms of economic factors alone. However, it is clear that inadequate savings and investments in the face of growing populations are mounting severe pressures on facilities aggravating unemployment, poverty, and poor living standards. In view of this, policies must aim at removing impediments to a vigorous expansion of these economies to realise the much needed spread effect of development programmes toward improving living standards while bearing in mind the plight of the rural population.

5.3 RECOMMENDATIONS

Enough has been said to indicate that there is no single method of minimising the development problems. There are precious few mechanisms

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[145] See Chapter 3, sections 3.2.1 to 3.2.3.

[146] See Chapter 3, section 3.3.2.

to repair and reconstruct these economies. Successful economic reconstruction requires not only sound economic policy formulation, which has to be co-ordinated, monitored and justified, but also the wholehearted support of the widest possible spectrum of the populace.

The concluding considerations relating to the study that has been undertaken will take the form of several recommendations. These recommendations are first stated in summary form and then elaborated rather more fully afterwards:

The main thrust of the recommendations may be summed up as involving the following paramount considerations:

- Restructuring government expenditure by: raising public innvestment in infrastructure and public services, and targeting this towards the poor and underprivileged; and simultaneously restricting the growth of recurrent expenditure so as to meet budgetary targets.

- The extent to which population growth can be reduced by putting in place mechanisms which will make people become more rational to the pros and cons of having large family sizes.

- That unemployment and poverty can be reduced by creating some basic economic activities particularly in rural areas that would create local employment and generate incomes.

- That in view of the situation of Ghana and South Africa in relation to health, the overall policy objective should be to improve the health status of all the people. Policies must focus on putting in place measures to eliminate the immediate and underlying causes of diseases.

- That the planning and establishment of growth centres must be looked at as an exercise aimed at overhauling and revolutionising the whole pattern and network of economic infrastructure. Such centres would perform pivoting role within the economies as catalysts for social, economic and cultural development.

- That the success in achieving the efficient utilization of vast variety of natural resources in Ghana and South Africa require effective resolution of the problems that are generally plaguing skill accumulation and education system, particularly at the basic level.

- That rebuilding the financial system which currently offers unattractive reward to savers particularly in Ghana and thus discouraging the mobilization of finance for investment is indispensable. Measures must involve rebuilding confidence in the banking system and design fiscal and monetary policies that would attract private savings and investment into the countries.

- Appropriate technologies to all sectors of the economies should be suited to the needs of both small and large-scale holders because most farmers particularly in Ghana cultivate only on small areas.

- Establishing peace and stability by means of concerted effort of all interest groups so that the economies do not become political football.

An attempt will now be made to spell out in full the recommendations based on the above considerations.

5.3.1 Promoting investment and development

With a dominant public sector, it is only natural that a major change in the level of an important variable such as government investment will inevitably create wide repercussions that will affect virtually every relevant economic variable. Much higher levels of government investment will initially boost the growth of the economies, and may also create jobs, but if this does not lead to a corresponding increase in private investment, these short-run benefits cannot lead to sustained growth and development. This is because the economic impact of any additional government investment is likely to depend strongly upon other prevailing conditions. In particular, any given level of public investment is clearly more affordable, the healthier the state of the private sector, as the tax base and private savings would be larger. The effect of any given public investment programme will thus tend to be more sustainable if productivity growth in the private sector is faster.

Increased government investment would directly serve the redistributive objective and contribute to improved social stability. The immediate needs of the disadvantaged majority (the poor) both in Ghana and in South Africa are best served by an increase in government investment in infrastructure such as water supply, sanitation and housing in deprived areas, and by further provision of schools and facilities for primary health care. In South Africa these expenditures would be very much different in their distributional effects from previous public investments, as the latter in the past was largely aimed at providing infrastructure and services that benefitted the white community most. Such investments should, in the presence of greater private investor confidence, generate sufficient upward multiplier effects[147] to drive the economies toward full capacity.

An expansion in public investment will also affect immediately recession-stricken economies in a positive manner. Additional government investment will add directly to domestic demand and reduce the supply gap. There will also be secondary effects on both demand and supply side of the

[147]. The factor by which a change in a component of aggregate demand, like investment or government spending, is multiplied to lead to a larger change in equilibrium national output.

economies. On the demand side, increased incomes will stimulate private consumption - the multiplier effect, and higher growth in the economies will encourage private investment - the accelerator effect.[148] Potential supply, the maximum amount that economy is capable of producing on a sustained basis, is affected through a number of mechanisms. In so far as additional government investment is in the production of goods and marketable services, this will add to potential supply in the economies.

Also, such expenditures, in the form of building new roads and schools or irrigating land, will directly create new jobs during implementation and increase the output and the capacity. For example, new irrigation will lead to higher crop yields. Similarly, provision of education and training in both countries is inadequate on both distributional grounds and in terms of future growth needs. Greater emphasis placed in government budgets on reallocating expenditure towards basic education will be particularly important in ensuring that the quality of basic education received by the poor will improve. A sufficient rapid expansion in the skilled labour, an important prerequisite for growth, would stimulate much higher employment growth among the poor and the unskilled. Any negative effects on unskilled employment arising from the substitution of skilled for unskilled labour would be heavily offset by the beneficial effects of higher growth in the economy.

Again, to the extent that social and equity objectives have to be met in the context of present conditions, public investment may still generate employment in the interim, and such an investment may even be desirable. But care should be taken that it does not come into conflict with or negate the private investment. Since government is only one of the sectors in the

148. The effect on GDP of the increase in investment that results from an increase in output. For instance, the greater output leads a firm to believe the demand for its products will rise in the future; the resulting increasing in investment leads to growth in output and still further increases in investment, accelerating the expansion of the economy.

economy, it is virtually impossible to expect the government to create the employment opportunities for the whole economy. Moreover, since the government is not generally guided by profit and efficiency principles, an over-emphasis on employment generation may as well end up with a gloated civil service which may constitute a vested interest group in its own rights and thus may act as an obstacle to growth in the future.

Given these implications of public investment, the objective of government should be to create the necessary environment and smoothen the path for private investment, as can be done, for instance, by providing the necessary skill base, which will not be undertaken by the private sector.

In the past, a scarcity of skilled labour had acted as a brake on economic growth and this is once again likely to re-emerge as an important constraint as the economy comes out of the present recession. The importance of basic education is supported by evidence from South East Asia, where investment in basic education has been pivotal in spurring economic growth and reducing poverty. International experience shows that much of the responsibility for addressing issues such as technical and vocational training, adult education, and numeracy/basic skills acquisition should rest side by side on both public and the private sector. Concentrating of government efforts on basic education will lay a solid foundation upon which the rest of the system can be built.

Finally, the engine of growth would be accelerated with increased government investments in measures towards boosting exports. Exports can influence and contribute to higher growth, job creation and development through a variety of channels. Although the relative importance of these different channels seems to vary from country to country, numerous empirical studies have nevertheless shown the link between exports and growth. While the actual mechanisms differ across these studies (increased capacity utilization, scale economies, productivity and technological improvements and so on), there is widespread evidence in support of the phenomenon. The Newly Industrialized Countries (NIC's) of Korea, Taiwan, Singapore, Thailand and HongKong are the most visible examples of countries that experienced export-led growth.

According to a study undertaken by the South African Chamber of Business (SACOB),[149] South African manufacturing costs are on the average 15% higher than those of Organisation for Economic Co-operation and Development (OECD) mainly because South African manufacturing firms pay 24% more than OECD counterparts for their inputs, but also because their capital and productivity labour costs adjusted for, are higher. Thus, if subsidy is provided as an incentive to help firms offset the price disadvantage South African exporters face in international markets, it would help boost exports and increase growth and employment. This can be applied in Ghana as well. After all every country subsidizes exports directly or indirectly.

However, this is not to argue that government investments will have no negative effects at all. First, fiscal deficit will immediately rise, unless offset by increases in taxation and decreases in government debt. Second, higher domestic expenditures will induce increased imports, and possibly reduce exports, if producers direct their production towards home markets, thus causing a deterioration in the external current account balance. Third, increases in unit labour costs and the reduction in the spare capacity of the economy may stimulate additional inflation. Fourth, rising demand in the economy will put pressures on financial markets and push up real interest rates which may dampen private investment. The resultant deficit in government budget and the rise in government debt will also mean a rise in interest rate level in the economy and a deterioration in the exchange rate which will adversely affect both these types of investments. Fifth, any

149. South African Chamber of Business (SACOB), a concept for the Development of a new Industrial Policy for South Africa, 1991. Johannesburg.

attempt at maintaining real wages will necessarily mean a slow-down in employment growth. All these effects will be present as long as there is a continual growth in public investment.

Since public investment is generally geared towards creating necessary conditions for fostering private investment, it may not generate immediate effects on output growth, nor will the impact on employment generation be sustained. Moreover, given the limited amount of resources (both physical and human) in the economies an increase in public investment will necessarily mean a diversion of resources away from the private sector and thus could have the effect of crowding out the private sector which is the important sector for sustaining growth and employment. To the extent that taxation is high, because the government needs resources for its own investment, it may, in fact, have disincentive effects on the private sector.

For an expanded government investment programme to force an economy on to a sustainable path, sufficient growth must be generated to offset the otherwise negative fiscal and balance-of-payments deficits. The economy must "grow its way out of trouble". The expected sequence runs as follows: increased government investment raises aggregate demand through its direct impact on domestic absorption[150] and through associated multiplier and accelerator effects. If demand rises quickly, it will eventually catch up with potential supply, and the economy will operate at full capacity. Subsequent growth in G.D.P. can only come through increased inputs into production and improved productivity. Provided that these conditions are met, and that supply grows fast enough, the fiscal deficit will eventually fall as a percentage of G.D.P., and the external current account will move into a surplus. In practice, of course, the movement along an expanding supply frontier is unlikely to be smooth, as the economy will

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150. Absorption is total expenditure on final goods and services. Domestic absorption in an economy is equal to consumption plus investment plus government expenditure (or C + I + G), and is equivalent to national income minus net exports.

inevitably receive a number of shocks, but these blips can be counteracted through short term fiscal and monetary policies.

This rosy description of the growth process will not apply to Ghana or South Africa, unless private investment responds more positively to renewed growth. The heart of the problem is that an increase in public expenditure alone is likely to be insufficient, as the multiplier effect is too small due to high marginal propensities to consume, import and tax out of income.

Success in meeting these targets will depend on the willingness and ability of the private sector to increase investment substantially, which is in turn dependent on the speedy removal of a number of constraints and on government's ability to create an enabling environment. This will in a large measure depend on the successful implementation of the fiscal and monetary measures.

Measures designed to promote investment can only succeed if they are supported and supplemented by positive measures aimed at generating incomes in general. In this regard it is recommended that:

Consideration be given to having investor confidence returning to the economies. If socio-political environment is more conducive to private investment, both Ghana and South Africa can attract many investors and consequently they will enjoy sustained per capita growth with substantial redistribution. Attention should therefore be focused on curbing violence and political instability.

Review fiscal incentives for investment to ensure that their effect on employment is positive or at least neutral. Incentives such as tax holidays and tax rebates would serve as baits to potential investors and secondary companies. This may ensure the flow of capital into the economies.

Adjustment of minimum wages in line with the competitiveness of industry, taking into account domestic inflation should be made. Given the increase in income implies increase in the savings ability of households. This will assist banks to mobilize loanable funds for investment. At the same time, the increase in incomes may increase the purchasing power of people. With efficiency in demand, a signal will be sent to investors to increase production. This will create more employment opportunities and economic growth in Ghana and South Africa.

The prime objective of fiscal policy in the medium-term for both countries should be the creation of an enabling environment through the provision of the economic and social services and infrastructure required for investment. This involves the following:

- Reduce the budget deficit to manageable proportions while at the same time increase public sector savings by maintaining a global surplus of revenue over recurrent expenditure. To do this, it is necessary to maintain a foreign debt profile which keeps the debt service ratio[151] below 25% of the value of exports of goods and services.

- Introduce an effective and equitable system of fiscal decentralization with the aim of granting local authorities control over a substantial proportion of their revenue, thereby reducing their financial dependence on central government for investment funds.

- Review the criteria for selecting public investment projects. Projects must not be selected solely on the basis of projected economic rates of return but primarily on their potential contribution to development - particularly human development. Accordingly, a larger share of

[151] Payment of interest and amortisation of capital in relation to the value of exports of goods and non-factor services.

public investment should be devoted to social sector projects than hitherto. At the same time direct productive investment must be made in order to achieve increase economic growth upon which social development eventually depends.

- Establish an efficient and modally complementary and integrated transport network and other facilities for movement of people and goods at least cost. This will serve as bait to investors into the countries.

Implementation of the fiscal policies enunciated above will remove many of the monetary problems the countries have been encountering which arose from the re-emergence of substantial budget deficits and the consequential resort by government to large-scale borrowing at high rates of interest which at the end discourages investment.

The role of micro and small-scale enterprises in employment generation, especially self-employment, is recognised in both Ghana and South Africa. Therefore, it should be a national policy objective to encourage the development of these enterprises in order to maximise employment. Administrative and legal conditions such as requirement of collaterals before loans are made available to small-scale businesses must be reviewed. On the other hand, since the informal sector is very large, it is important that informal mechanism of savings mobilization be encouraged. For example, individuals with scarce financial resources can contribute specific sums of money on regular basis for a period to a common fund. This lump sum so contributed can be used as collateral for loans.

To help to keep people in agriculture and to accelerate economic growth in agrarian economies such as in Ghana and small farm holdings in South Africa, investment in agricultural sector must be expanded. To achieve this, the following programmes should be undertaken:

- Agricultural extension services should be unified and strengthened to provide on-farm assistance to farmers to help them to improve the technologies used in both production and on-farm storage and to diversify production through the introduction of new and improved varieties and dissemination of research findings and their incorporation into extension advice.

- Agricultural infrastructure-feeder roads, storage and marketing facilities should be further improved and given a larger share of public sector investment. The private sector should also be encouraged to participate in infrastructure investment. Non-agricultural activities will benefit from the improvement in the rural infrastructure and the increased demand for both agricultural inputs and consumer goods following the rise in incomes of farmers.

Finally, governments must undertake comprehensive review of all legislation and administrative practices which affect commercial and industrial activities.

- Amend or repeal any legislation which is in conflict with investment and development policies and objectives.

- Review all regulations and controls on private sector operations and abolish any which are not essential to the national interest and for the maintenance of law and order.

- Remove any barriers to the free flow of information on economic conditions, improve the coverage and accuracy of economic statistics and speed up their publication for interested public.

- Make more use of diplomatic missions abroad to provide information on market opportunities to promote investment and export markets.

5.3.2 Establishment of rural family planning and recreation centres

There is a long felt need for the establishment of family planning and recreation centres particularly in rural areas of Ghana and South Africa. Conditions of life in rural areas are significantly below those in urban areas. The basic goal of improving the quality of life for all thus dictates that a special effort must be made in the field of rural development. It is therefore recommended that:

Family planning centres to serve as advice centres must be comprehensively planned and established to provide services normally provided in urban areas. Carrying the service to the rural folk in this manner would make much impact in the sense that they would not have to travel to urban towns for advice. It also becomes easier to monitor services delivered to the people.

In the past, family planning education was in the form of advising people about methods of contraception. This should be augmented by means of drama and video shows which will make them become more rational to the pros and cons of having large family sizes. In this way the awareness of the deadly disease, AIDS, may also be made.

Recreational facilities must be incorporated in the planning of rural development. Entertainment centres such as cinemas would not only develop and give the people deeper understanding of their environment but would also be source of entertainment to the people after work rather than retiring into their rooms and using sex for entertainment and relaxation.

5.3.3 Rural restructuring

Job creation through rural restructuring and encouragement for small businesses would serve primarily to provide jobs, and would certainly be consistent with greater social stability. These measures will directly improve the welfare of the disadvantaged population. In an economy in which a large percentage of the labour force is unemployed and in which nearly one half do not have wage employment, the social cost of employing labour lies well below going wage rates. In such circumstances, affordable special employment measures are justified. To improve the living standards of the people and creating jobs for them, a hierarchy of service centres, nationwide must be formed in the form of decentralization in order to develop and exploit the mutually re-enforcing linkages between settlements and their hinterlands. In that case, the spread effect of investments would trickle down across entire economy. The aim should be:

- to develop and support integrated sustainable rural development and rural local government models through land restitution and redistribution (for South Africa), and tenure reform and settlement support (for both countries) to kick-start a wider land reform process;

- to respond to demands of land-based communities for small-scale agricultural production training and support. Also, development of appropriate training modules such as mobile training units by building capacity of existing institutions to train trainers to serve the sector;

- siting industries in rural areas where raw materials are available rather than exporting them to already concentrated urban industrial areas;

- promotion of appropriate technology in the provision of houses in the rural areas to be enhanced with Rural Housing Division acting as facilitators; and to support the construction of roads network, telecommunication and electricity to rural areas to link the national grid. In all cases, development plans must involve the people on the ground it intends to benefit.

5.3.4 Improving health status

In the medium term, a firm foundation must be build for the improvement in the quality of health care as well as for increasing access to health facilities. There is also a critical need for the effective implementation of measures that will establish a broad enabling environment for health. To achieve this objective the following measures are recommended:

- provision of potable water and sanitation to all areas, particularly the needs of communities previously neglected;

- nutrition policy must focus on measures to eliminate the immediate and underlying causes of malnutrition such as household food security, deficient maternal and child care as well as sanitary surroundings and unsafe drinking water. Sanitary inspectors should be empowered to enforce regulations on environmental cleanliness;

- factors that are external to the health system such as cultural attitudes and the physical environment in which the population lives, which have an important bearing on health outcomes must not be neglected. Against this background, the traditional medical systems in Africa must be developed and integrated into the health delivery system of these countries;

- above all, preventive rather than curative health delivery should be encouraged in Ghana and South Africa through education.

5.3.5 Upgrading of skills

Important as academic education is in modern times it must be borne in mind that, in an underdeveloped country, the presence of a large number of people with technical and trade training is one of the pre requisites for future economic growth. Countries that are capable of producing and retaining technical personnel and other factors of production stand a better chance of attaining substantial growth in their economy. Policies should be directed towards:

- encouraging rapid growth in skilled labour by upgrading the skills of semi-skilled and unskilled workers. Returns from education will take years to emerge. Given the need for economic growth to resume as quickly as possible, the skills of labour force should be more quickly upgraded through training;

- a firm foundation for re-orienting the entire education system toward the promotion of creativity, science and the acquisition of more flexible basic skills and improving the technical proficiency of the workforce rather than educating people for white-collar jobs only. Success in achieving this objective will require effective resolution of the problems that are generally plaguing education systems such as poor quality of instruction; shortage of qualified teachers, inadequate facilities and instructional materials and limited access especially for the poor and disadvantaged;

- ensuring that the quality of education received by the children of disadvantaged groups be improved, while paying careful attention to the appropriate balance between technical and general education at higher levels. The immediate needs of the majority in Ghana and South Africa are best served by an increase in public investment in infrastructure such as water supply, sanitation and housing in deprived areas, and in further provision of primary care facilities. Given budgetary constraints, a serious upgrading of the skill base can come about through the efforts of the private sector.

5.3.6 Establishing prudent fiscal and monetary policies

The implementation of prudent fiscal and monetary policies are needed to ensure the internal and external stability of the framework. They are in a real sense the watchdogs of the process of economic development. A runaway fiscal deficit will inevitably lead to increased inflation and balance-of-payments problems. Irresponsible monetary policies will have similar effects, and could lead to hyperinflation.

No economic policy framework can succeed unless it is conducted in an atmosphere of transparency, stability and credibility. To stimulate growth, the single most important ingredient is investor confidence. Political and economic uncertainties are powerful disincentives. Investors confidence will only materialize if policy is transparent, and there is a stable set of policies. For this purpose, it is recommended that:

- any financial system which offers unattractive reward to savers must be overhauled completely. Punitive measures should be taken against mismanagement of state funds;

- introduction of comprehensive financial sector reform programme should aim at enhancing the soundness of banking institutions by improving the regulatory framework and strengthening bank supervision by the central bank; restructuring the financially distressed banks following the formulation of specific restructuring plans; and improving resource mobilization and increase the efficiency of credit allocation by the banking system;

- with a view to eliminating or at least alleviating problems of tax evasion and disincentives in Ghana and South Africa in order to increase revenue as a share of G.D.P., policies must focus on improving tax administration, broadening the tax base, and rationalising the structure of taxation. Tax reforms should aim at removing the existing distortions and strengthening economic incentives, particularly for private savings and investments, as well as enhancing efficiency and equity in the economy. These include reductions in the average personal and corporate income tax rates;

Government expenditure policies should also be directed toward achieving a more equitable distribution of the benefits in particular the most vulnerable social and economic groups - the small farmers, the urban unemployed and under employed. In this regard, outlays on education, health, and social welfare services have to be raised in the context of public expenditure.

5.3.7 Complementary measures

The low levels of literacy is a constraint on the adoption of more scientific attitude by the populations. For this reason it would be a worthwhile investment to achieve universal basic education. Compulsory free basic education for all is required. This will increase school enrolment and reduce drop-out rates of rural populations. The emphasis at all levels must be to science and technology.

In a system where everyone wants a piece of the "corruption pie" and know how to get it, economies can simply implode. Such attitude is corrosive and diverts revenue from treasury to wrong pockets and leaves the government strapped for resources that it cannot fund the infrastructure needed to create employment opportunities and the ultimate development required. Punitive measures must be taken against such unscrupulous people.

Finally, while focusing attention on economic problems plaguing Ghana and South Africa, governments and for that matter all political concerns must ponder over various acts of violence and political instability sweeping across them. Unless violence is curbed drastically and over relatively short period, foreign investors as well as potential domestic investors are likely to withdraw or investments will not bring any significant improvements to the countries. High unemployment rates will be aggravated, young qualified people like doctors and technicians will continue to leave these countries and companies which cannot continue operations due to the lack of funds would have to shut-down. This will further accentuate unemployment and social unrest. This can be successfully minimised if the systems of governing have built-in checks and balances with citizenship rights given.

It is the hope that if recommendations made on the basis of arguments and conclusions are applied it will go a long way to minimise development problems. One should however keep in mind that the obvious can sometimes be wrong - and in economics it often is.

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