Three Challenges for Ghana’s Economy

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Thank you, friends, for coming to this launch of Ernest Aryeetey and Ravi Kanbur (eds.) The Economy of Ghana: Analytical Perspectives on Stability, Growth and Poverty, James Currey, 2008.

Professor Ernest Aryeetey and I are very grateful to you for coming, and to Nana J.B. Siriboe, Chief Director of the Ministry of Finance, for agreeing to chair the function and to launch the book.

Ernest and I are very proud of this book, not only of its high quality content, but also the process that led to its production. It is one of many markers on a longstanding and ongoing collaboration between us and our two institutions, the University of Ghana and Cornell University. Two thirds of the authors are Ghanaian, most of them based in Ghana, and many of them representing the younger generation of Ghanaian economists, on whose shoulders will fall the responsibility of economic policy making and advising in the years to come.

We are also proud that the volume takes us beyond the “Washington Consensus and its Discontents” style of debate that characterized the economic development discourse of the 1980s, 1990s and early 2000s. But Ghana’s experience, as discussed in the volume and in the overview, invites us to take the best in the consensus and its critics and to shape a new agenda relevant to the current realities of Ghana’s economy. The volume emphasizes the successes and the failures of past policy, and highlights the importance of country specificities in explaining both, and in formulating policy for the future. In this, it reflects the approach and the philosophy of the recent report of the Commission on Growth and Development.¹

In light of this volume, I would like to put before you what I see as the three most pressing challenges before Ghana’s economic policy makers in the coming decade or so.

First is the challenge of finding a growth path in a world in which China has opened up, India is opening up, and many of the unskilled-labor dominant economies of Asia are following suit. As these countries become increasingly integrated into the global


economy, the traditional path of labor intensive light manufactures exports will present increasing challenges to the remaining countries, especially in Africa. Comparative advantage arguments then suggest a land and natural resource based strategy. I will come to the natural resource based strategy momentarily. But a land based strategy essentially means agriculture and agro-processing. Strategy and action will thus have to focus on diagnosing on releasing the binding constraints in this sector, some of which are generic to exporting, but others are specific to small scale agriculture, or to environmental sustainability. Throughout, the case of human capital development through education and health will remain strong, not only on its own terms, to advance human development, but to assist in agro-processing and in developing a comparative advantage in human capital based light exports.

Second is the challenge of Ghana’s coming oil boom. To see how fast this has come upon us, when the conference that underlies this volume was held, in 2004, oil was only a distant possibility, and was not covered as a topic. But now it is a reality and although oil reserves and oil flows are not on the “Nigerian scale”, they are large enough to create opportunities, and risks. In my view, although there are some technical economic issues such as how to deal with upward pressure on the exchange rate, especially in the context of inflation targeting, the central problem is one of political economy. Can Ghana’s polity restrain itself and set up transparent procedures for deploying the revenue form oil, and be prudent in its use recognizing that the boom will soon be over. There are surely enough experiences of the resource curse in Africa and elsewhere to give Ghanaian’s pause for thought. Ghanaian economists can help with analysis, but only if the political economy wants it.

Third is the challenge of increasing inequality. The consequences of a resource boom will most likely magnify pressures that are already manifesting themselves from one aspect of development outcomes in the past two decades. There has been significant economic growth and income poverty reduction, but inequalities have grown in critical dimensions—interpersonal, inter-regional and interethnic. These inequalities are superimposed on other inequalities such as gender inequalities, and are part of the reason why Ghanaians do not seem to feel the effects of the good official statistics “in their pockets”, and policy makers sense discontent despite delivering a good growth performance. I believe that sharply rising inequality, in its various dimensions, is a real and present danger to Ghanaian growth and to political stability. Prudent use of government revenue from oil to build up an equitable distribution of human capital would seem to be a high priority strategy for the government, and could pay dividends not only on the distributional front, but also in addressing the emerging comparative advantage challenges that Ghana will face in global markets.

These are formidable challenges for policy makers. Ghanaian economists, by which I mean not only Ghanaians who are economists but also economists whose focus is Ghanaian, can help. This volume is a start.

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