1-1-1995

The Management of Economic Reform - The Case of the Ghanaian State

Ho-Won Jeong

Occasional Paper No. 9504
August, 1995

Occasional Papers

The Center for International Studies of the University of Missouri-St. Louis issues *Occasional Papers* at irregular intervals from ongoing research projects, thereby providing a viable means for communicating tentative results. Comments on these papers, therefore, are particularly welcome. *Occasional Papers* should not be reproduced or quoted at length without the consent of the author or of the Center for International Studies.

The Management of Economic Reform: The Case of the Ghanaian State

Ho-Won Jeong

THE MANAGEMENT OF ECONOMIC REFORM: THE CASE OF THE GHANAIAN STATE

Ho-Won Jeong
The Theodore Lentz Post-Doctoral Fellow in
Peace and Conflict Resolution,
Center for International Studies
Research Fellow, Department of Political Science
University of Missouri-St. Louis
St. Louis, MO 63121-4499

The author appreciates the support of Center for International Studies and Department of Political Science at University of Missouri-St. Louis, and the Lentz Peace Research Association.

The majority of developing countries have been forced to implement structural adjustment programs, over more than a decade, in order to deal with economic crisis. Adjustment programs include removal of price controls, elimination of subsidies to basic necessities, privatization of state industries, retrenchment of state employees, and trade liberalization. Given their impact on living standards of the majority of the populations, these programs have often provoked social opposition. Thus liberal economic reform was normally introduced to reluctant Third World governments as one of the major conditions of loan agreements with international financial institutions (Jeong, 1995b). This situation puts the state in a peculiar position to negotiate economic programs simultaneously with external forces and domestic interest groups.

The Rawlings regime in Ghana has far more effectively implemented structural adjustment programs sponsored by international financial institutions than its predecessors and other African governments (IMF, 1995; Kanbur, 1994). The survival of Ghana's liberal economic reform over more than a decade has drawn attention from both policy makers and researchers. In terms of substantive policy issues, one can see a great deal of similarities between previous economic stabilization measures and the current structural adjustment program. Both of them adopted such policy measures as the removal of state control in various sectors of the economy and the redistribution of incomes in favor of export sectors, particularly, cocoa farmers. The difference is that these policies had never been pursued for longer than 3 or 4 years before Rawlings took power in 1982. Tough austerity measures designed to achieve macroeconomic balance for a short term caused political instability and eventually the collapse of the governments. Ghana shows an interesting controlled experiment for the way economic performance fares with different levels of government ability to implement economic policies.

This paper compares the Rawlings government with its predecessors in terms of state capacity to deal with social opposition and its relationships to international financial institutions. The main question is in what ways the political economy of structural adjustment is different from previous reform efforts. More specifically, what factors can explain the differences? After examining the role of the Ghanaian state in economic development, the author will focus on issues which confronted both the Rawlings and previous regimes in the pursuit of market economic reform. Then, the capacity of the Rawlings government to carry out reform is compared with that of the previous regimes in terms of managing relations with various interest groups. It also assesses external pressure for policy changes and the response of political elites.

The Role of a State in Economic Development

The extensive state interventionism found in much of the developing world in the 1960s and 1970s is clearly distinct from the reduced role of a state in resource allocation since the 1980s (Biersteker, 1990:477). The populist socialist ideology of states like Tanzania, Guinea Bissau and Ghana in the 1970s conditioned their policy choices to encourage a large public sector and radical rural reform. In the statist approach to development, government officials play an entrepreneurial role. Politicians and bureaucrats use state power to acquire capital and resources. The state itself became the prime instrument of class formation, fostering the ascendancy of a political-administrative class whose own interests were tied to state expansion.(Young, 1991)

In many African countries in the 1960s and the 1970s, political leaders diverted state contracts, loans, and foreign exchange towards the expansion of parastatals as the dominant or even the sole strategy for economic development. The stagnation experienced by many African economies is often attributed to the reluctance of national officials to assist local capitalism, a tendency towards urban bias, and a propensity for import-substitution industries. Thus, by the early 1980s, the state was no longer treated as the prime mover of development, but increasingly as its main constraint (Healey, et al., 92:26). This is, in part, due to changing perceptions among development practitioners and, in part, due to the ascendancy of neo-liberal economic thinking. It also reflects the empirical reality of state decay in Africa, and the inability of many African states to solve pressing economic problems.

Since the early 1980s, therefore, the major attention has been paid to the deregulation of state controlled economy. Especially, the World Bank and the IMF began to emphasize the significance of a private sector and the utilization of market forces (Shaw, 1993). Various international networks were engaged in the diffusion of orthodox economic ideas. Policy oversight was required to make sure loans are properly used to strengthen market forces. Enforcing conditionality norms led to the decline of the statist ideologies that had prevailed throughout the developing world in the 1970s. Therefore, the promotion of structural adjustment has encouraged a shift from statist models of economic management to greater decentralization.

In the 1990s, given the realization that the elimination of government control over a broad range of policy issues did not necessarily bring about economic recovery, the emphasis shifted to a more active state role in supporting private sectors.[1] Thus Africa needs not just a less government but a better government--a government that concentrates its efforts less on direct economic interventions but more on enabling others to be productive.(World Bank, 1990)

Some even argue that a state needs to be strengthened before the reduction of its functions.(Evans, 1992) Organizational foundations of the developmental state focus on the internal cooperation and ideological cohesion of the bureaucracy. Organizationally coherent states can build the linkages with key social actors that are required to support development projects, while avoiding the problem of capture and rent seeking. In addition, policy design can be used to affect the structure of coalitions and the level of political support and opposition (Berry, 1990). The crucial questions of leadership and tactics can be asked in the context of maintaining an integrative policy framework.

Newly Industrialized Countries (NICs) are often viewed as excellent examples of the developmental state. They successfully channeled government contracts, foreign exchange, and credit to help capable local firms. The manufacturing base of NICs was promoted by labor intensive activities, using standard imported equipment, and was propelled by the export of cheap consumer goods to the advanced economies (Kennedy, 1994:206). NICs experience suggests that small scale local businesses can assist in industrialization provided small firms are supported by a competent, disciplined government which is not hostile to private initiatives. In a competitive environment, a state needs to act to foster market opportunities in more advanced foreign countries (Werlin, 1991:251). Due to the need for private capital accumulation, the state is expected to assume "a lending role in building human resources, administrative, and physical infrastructure capacity, while the goods-producing and noninfrastructure service sectors are left to the flexibility and incentives of private enterprise and market discipline."(World Bank, 1989:186)

Contrary to their policy toward Asian NICs, in the 1990s, foreign donors began to stress democratization of African states along with economic reform. The World Bank and others argue that a liberal state is essential to privatization, decentralization of services to the local level, and a lifting of bureaucratic controls. A competitive market economy can be better nurtured by a liberal state. Only a disciplined, responsible, and responsive state openly makes decisions, and government officials are publicly accountable for their actions. Public accountability requires a free press to monitor government performance and publicize abuses. Decentralization can lead to the reinvigoration of local governments, and the fostering of community participation and non-governmental organizations (Fatton, 1995; Nyang'oro, 1994).

The Response of the State to Economic Crisis in Ghana

Since its independence, the role of the state in Ghana has varied in accordance with economic ideologies and political support bases of different governments. Populist governments were interested in investment in infrastructure and redistribution of wealth while others promoted the role of a market mechanism. During the Nkrumah government (1957-1966), the state was involved in various industrial projects. The National Liberation Council (NLC), organized by military leaders who overthrew the Nkrumah regime, and the succeeding civilian Busia regime (1966-1972) put stress on achieving macroeconomic stability. The NLC pursued three main goals, including the restoration of budget stability, the balancing of foreign trade, and the consolidation of foreign debts. The Busia government inherited the basic economic strategy, but to stimulate growth, the government resorted to liberalization of imports.

The following National Redemption Council (NRC) faced such urgent economic tasks as increases in agricultural production, promotion of export earnings, reduction in budget deficits, and rehabilitation and expansion of the vital sectors of the economy. Establishing the proper priorities in the provision of social services was another important goal.[2] People's National Party (PNP) Government of President Limann (1979-1981) was pressed to adopt IMF stabilization measures which introduced austerity measures as well as increases in cocoa producer prices and devaluation. After the failure of socialist economic policies for a year, the Rawlings regime, which was formed by a military coup, has implemented economic liberalization policies since 1983. With heavy financial support of the donor community, the Ghanaian government has maintained its liberal economic reform after the presidential election in 1993.

i) State Capitalism during the Nkrumah Years

As in many other instances in Africa, Ghanaian leaders inherited an authoritarian state model from the colonial period, with a tradition of strong government control over the economy. During the post-colonial period, Ghana pursued active investment in infrastructure and industrialization. States normally played a key role in the process. The statist direction, often associated with economic nationalism and socialist experimentation, resulted from interventionist colonial traditions, the nationalist elite's association of capitalism with imperialism, the weakness of an indigenous expert advice, and the new state mangers' drive for self-aggrandizement. The post-colonial state appropriated the roles of economic regulator, planner, and, to varying degrees, entrepreneur (Gyimah-Boadi, 1993:253).

With the rising popular expectations of modern economic life, governments have to draw on state resources to secure political control. During the Nkrumah years, in particular, state intervention increased with its socialist ideology and its popular political base. The Ghanaian economy at independence in 1957 was highly dependent upon mono-crop production for generating resources needed for national development. The initial economic strategy of the Ghanaian government was based on industrialization and investment in urban sectors. This development strategy combined inward looking statism with populist social reform.

Nkrumah believed that Ghana was being used as a source of raw materials for capital investment, an exclusive market for manufactured goods. He was also convinced that non-manufacturing dependency was the main cause of underdevelopment. The state played an important role in decolonizing the country politically, economically, and socially. The socialist program was seen as the only way to bring Ghana to the threshold of a modern state based on highly organized, efficient agricultural and industrial programs.

Nkruhmah's strategy was characterized by increased public investments in industrialization and infrastructural development in a determined effort to restructure the economy away from colonial legacy. Socialism led to self-sustaining industrial growth. The initial state of Ghana's economy was healthy, and it helped the government draw the country's accumulated reserves to finance budget deficits resulting from development projects. However, Nkrumah's strategy was constrained by structural problems of the monocrop economy. By 1961 the Ghanaian people had become tired of vain statements on "paradise-benefits of industrialization" which did not show any physical signs of progress.

The failure to generate needed funds for development led to trade imbalance and budget account deficits from 1959-66. During this period, Ghana's foreign exchange reserve dropped by 60 percent. It was, in part, caused by a decline in prices of cocoa in the world market on which the government depended for massive borrowing to finance a growing budget deficit. Deficit financing, and expansionist monetary policy, and slow growth of output of basic consumer goods compounded the difficulties inherent in excess demand inflationary pressures.

Nkrumah tried to build state capitalism to compete with foreign economic interests operating in various sectors of the economy. To penetrate economic sectors dominated by foreigners, the state developed mechanisms of state enterprises (Ninsen, 1989:5). In the absence of a powerful private sector, the state had to intervene in several economic activities. The necessary revenue to finance the industrialization and social investment programs of the government was generated through the Cocoa Marketing Board. Thus surpluses were extracted from peasant cash crop production by the state. The government pushed the capitalist traders out of the market and in turn started to create a buying monopoly.

These initiatives caused problems as the world cocoa prices fell sharply within the international market. In addition, the high investment and recurrent statal and parastatal spendings were beginning to exert external balance and inflationary pressures. Some regional imbalances in economic development also emerged. The northern and upper regions and adjacent districts remained stagnant and peripheral to the economy (Green, 1988:8). This economic crisis in Ghana started in the mid-1960s and was accelerated in later years.

ii) Stabilization versus Interventionist Economic Policies

Various Ghanaian governments since Nkrumah fluctuated uncertainly between liberal and interventionist economic policies. Different types of political and economic interaction led to diverse development strategies. On the other hand, any single government did not consistently pursue one policy. The state's inability to cope with challenges from volatile international economic environment and a weak state power base made it difficult to pursue coherent economic policies.

Interventionist economic policies relied on domestic price control, government regulations on the distributive system, and administrative management of the balance of payments through fixed exchange rates, quantitative import restrictions, and administrative rationing of foreign currency. Several Ghanaian governments, including the National Redemption Council (1972-1975) and the early years of the Provisional National Defence Council (1982-1983), preferred these policy measures for political and ideological reasons. It was appealing due to its emphasis on artificially low official prices and equitable distribution of wealth.

On the other hand, the lack of economic predictability and calculation resulting from distortions in the pricing and state monopolization of investment decisions impaired the private sector's ability. In addition, such institutional arrangements as the Cocoa Marketing Board and systems of import licenses and foreign exchange developed abundant opportunities for rent seeking. Patron-client relations were used as a chief means of gaining access to scarce resources (Stryker, 1990:24950).

Due to these limits of the administrative measures, state intervention has been frequently followed by economic liberalization. Liberal economic measures advocate the abolition of direct controls of private sectors and return to market mechanisms. This approach, associated with IMF stabilization, was applied by the National Liberation Council (1966-68), the Limann government (1978-79), and also attempted briefly (but unsuccessfully) at the end of 1971 by the Progress Party.

It emphasized macroeconomic stability and tried to liberalize foreign trade, deregulate market prices, realign internal prices to those prevailing in the international economy through devaluation of the currency and other monetary measures. While cocoa prices were raised, little attention was paid to income distribution. The package of IMF economic policies adopted by the Limann government in 1979, for example, included a three hundred per cent increase in the producer price of cocoa, a sharp reduction in government expenditure, and a substantial devaluation of the Ghanaian currency *cedi*.

Stabilization measures had advantages of balance of payments support, debt relief, and government deficit reduction. Those policies, however, failed to control inflation and brought no improvement in export performance despite massive devaluations. These stabilization programs neither addressed the problem of the external environment nor dependency structures. Besides, inadequate attention was paid to supply bottlenecks while the devaluation itself had a negligible effect on import and export levels (Jonah, 1989b:104). Its negative effects also include higher prices, controlled wages and retrenchment. These led to considerable popular resistance and made it a politically risky strategy. Since the January 1972 military coup, "no weak or elected government could contemplate [the implementation of stabilization measures] with equanimity."(Hutchful, 1989:99)

What essentially happened since the end of the Nkrumah regime was the intensification of structural constraints of the 1950s and 1960s. Gross economic mismanagement and unfavorable external factors combined to plunge the economy in a deeper crisis. The most unfavorable external developments were the rise in the price of petroleum and declining cocoa export earnings. These exerted a severe pressure on the country's balance of payments position and fueled domestic price inflation (Jonah, 1989b:104).

iii) Constraints on State Economic Policy Making

Ghanaian governments anxious to industrialize the economy realized the lack of flexibility in the economy the country inherited from the British. Persistent economic crises heightened the insecurity and frustration of the masses. Once the masses were frustrated, they withdrew their support for the government. The lower class has little input into decisions made at the national level. Two factors determine the economic benefits reaching the masses: the actual performance of the economy and policies made by the political elite. Since the low income class forms the bulk of the population, the legitimacy of the government rule comes from their support. The popular support often depends on economic benefits they receive. In Ghana, the political base of most governments was quickly eroded because the anticipated economic benefits of the people did not materialize (Herbst, 1994:194).

The story of Ghana from the late 1960s to 1982 is one in which political instability and the rapid turnover of policy makers contributed to misguided economic policies, to which governments adhered despite their realization that these policies were crippling the national economy. The inability to change policies that were driving the economy farther and farther down was perhaps the most striking element of Ghana's history during that period (World Bank, 1989:5). State incapacity to provide material security for the masses weakened its political capacity to build consensus on economic reforms.

Military coups are manifestations of a basic cleavage in Ghanaian politics, symbolized by ideology of Kwame Nkrumah versus that of Kofi Busia. The NLC coup facilitated the transfer of power from the CPP coalition to the "old establishment" of the old elites of chiefs, professional men, wealthy traders, senior civil servants who lost political power to Nkrumah's new coalition at independence.

The crisis of the Ghanaian state stems, to a great degree, from its inability to offer a sound material basis for economic growth. Failure to satisfy the country's economic needs makes it difficult for the government to justify its demand for political obligation from the population. Withdrawal of active support for political regimes and institutions became more prevalent when the state pursued liberal economic policies under pressure from foreign donors. Austerity measures in the past often introduced by the demand of the IMF were seen as betraying popular economic interests.

The role of the state in the economy was constrained by several factors. First of all, a fiscal crisis of the state caused by budgetary deficit led to external and domestic debt which, in turn, eroded national sovereignty and state economic policy making power. The problem was caused by the failure of the Ghanaian state to reproduce its traditional sources of export such as cocoa and to diversify or develop new sources of surplus. The economic crisis was at its roots a structural one, although fiscal policies and bureaucratic allocation over time exacerbated this by grossly restructuring incentives away from production toward exchange and rent-generating activities (Hutchful, 1989:97).

Second, deepening agricultural stagnation and underexploitation of industrial capacity led to the failure to satisfy essential consumption needs. Domestic productive sectors were organized for satisfying the need of foreign trade but not responding to growth in domestic demand. This led to the persistence of foreign domination in the economy despite the growth of state and private Ghanaian capitalism (Ninsen, 1989b:15, 16).

Third, frequent policy changes were made in response to opposition from key economic interest groups and pressure from the international economy. The lack of a coherent set of economic policies is responsible for a protracted political crisis, following the overthrow of Nkrumah in 1966. Increasing loss of policy control and effectiveness resulted from state instability and absence of popular confidence and support. Continuing efforts to mobilize resources for investment programs in the face of depleted reserves and the collapse of cocoa prices in the international market led to the bankruptcy of the state. On the other hand, efforts for economic stabilization based on austerity measures alienated broad segments of the population.

iv) New State Roles in Structural Adjustment

Structural adjustment requires changes in the role of the state (World Bank, 1989). Since adjustment policies were adopted, the productive and distributive functions of the Ghanaian state have been severely curtailed (Jonah, 1989a). By reducing the state's intervention in production, the Rawlings government attempted to redirect its regulatory intervention on behalf of the private sector. However, Bank and Fund policy recommendations have not yet produced a desired impact. The reduced state role for the expansion of a market mechanism has so far failed to mobilize the private sector adequately and has not improved state fiscal basis since, in Ghana, like many other parts of the developing world, there is a high degree of interdependence between the public and private sectors.

Economic policies have political significance since they influence distribution of resources in society. Simultaneously reducing the state's productive and regulatory roles undermined its ability both to influence the activities of significant economic actors in the country and to provide essential services. Thus, many of the policy reforms pressed by international financial institutions produced significant challenges to the legitimacy of the existing state. Reducing or redirecting the state's distributive intervention in the economy prevented the Rawlings regime from effectively mediating between conflicting factions within civil society, especially between capital and labor. As a matter of fact, the implementation of adjustment programs resulted in an active state role in repressing and co-opting opponents of neo-classic economic reform.

In the early 1990s, large aid donors and multinational financial agencies pressed the Ghanaian government for political reform which is commensurate with economic liberalization (Oquaye, 1995). In response to the pressure, national elections were held in November 1992, and Rawlings was able to maintain his power. The concept of a liberal state is tied to capacity building, disciplined by a democratic politics, to maintain political, administrative conditions for private capital accumulation. According to World Bank views, such a reformed state will also safeguard human rights and advance development objectives articulated on all sides. The state needs to be transformed to a crucial agent for the birth of a viable capitalism. For this purpose, the creation of an accountable government and a stable polity is essential.

In the views of donors, a new state-society balance of power is needed for the development of a market economy. Heavy-handed regulation of civil society by suspicious autocrats discourages autonomous business initiatives and provokes people to flee into the unregulated informal sector. The appropriation of the government machinery by the elite serves their own interests through the manipulation of regulatory power over contracts, licensed monopolies, and access to foreign exchange (Rothchild, 1995). Breakdowns in the administrative justice and political instability foster uncertainty as to the sanctity of private property. Ghana's democratic transition over the last several years reflects the new political economy theory of donors. While democracy may help create conditions for promoting private sectors, popular participation can challenge the political legitimacy of structural adjustment especially in the midst of a lack of improved living standards.

The State and Interest Groups

Since liberal economic reform is often considered unavoidable, the policy reform process has evolved into a complex bargaining strategy between the state and its international creditors, on one level, and between the state and domestic political groups, on the other level. In determining the distribution of costs of austerity programs to society, the state must engage in simultaneous negotiations with international creditors and domestic political groups. Thus, the success of liberal economic policies often depends on the government ability to deal with different levels of policy making problems (Toye, 1991). The state then is the critical intermediary caught in the cross-cutting pressures exerted by domestic and foreign interests.

Creditors favor a minimum of finance in return for broad and swift adjustment efforts. Debtor governments, by contrast, seek to maximize available finance while minimizing the political and economic costs of implementing difficult reform measures. The program should be negotiated that can reduce the burden of the population. At the same time, it should be able to overcome any popular opposition to austerity programs which are essential to reduction in budget deficits. When the state has imbalance of payments and debt problems and needs international financial assistance, the options for the state are limited. Some suggest that authoritarian regimes are more likely to take drastic measures to achieve macroeconomic balance while regimes in transition to democracy have more difficulty with reform.(Cornia, et al., 1992) The capacity of the Ghanaian state to negotiate economic reform since the early 1980s can be compared with that of previous governments.

i) Economic Policy Making before the Rawlings Government

Economic reforms cannot be considered in a political vacuum. Various Ghanaian governments before 1982 pursued often contradictory economic policies without much consistency. That is related to a lack of a coherent state power structure. Populist governments pursued low food procurement prices through subsidies, and allowed overvalued exchange rates to reduce the costs of imported raw materials and consumer goods. To protect industrial output for the domestic market, they used quotas and tariffs in trade. This was a common policy practice under the Nikrumah and Acheampong regimes in the early 1960s and the mid 1970s.

On the other hand, liberal economic reform was not successful due to the limits of Ghanaian political economy. Given the lack of industrial bases for manufacturing goods, the removal of price control does not have an immediate impact. The elimination of trade barriers is often compensated by devaluation of currency and inflation. Difficulty in credits created a tough business environment. The favorable treatment of prices of agricultural products did not bring expected political support from rural areas. Price increases in cocoa did not trickle down to wage farmers, while the main beneficiaries were traders. Faced with resistance, the democratically elected Busia and the Lemann governments vacillated between economic concessions and political repression (Drah, 1993).

The scope of both populist and austerity economic programs was limited, and the net effect was long periods of political stalemate in Ghana. In the context of African political economy, the government's ability to manage relations with the international donor community and national interest groups for the management of economic policies has been constrained in several ways. First, internal and external political forces have impact on state policy making in particular ways but are incapable of long term domination. The Ghanaian state became "the object of endless and inconclusive contestation among rival political and class forces" in the past (Hutchful, 1989:127). Organizationally coherent states are capable of building the linkages with key social actors that are required to support developmental projects, while avoiding the problems of capture and rent seeking (Evans, 1992). Thus the failure of economic reform in Ghana before 1982 can be attributed to the weak organizational foundations of the state related to a lack of internal cohesion.

Second, because of the absence of effective ideological and structural domination, any of the contending forces could not impose a particular social project over an extended period. Interest groups compete for scarce power resources in a society divided across economic and ethnic lines. However, the relative weakness of those groups implies that few restriction can be imposed on the state's capacity to implement its policies. The larger farmers do not constitute a powerful lobby unlike Kenya and other African countries (Mosley, et al., 1991). Communal farmers selling food and raw materials at the home market did not benefit from currency devaluation in contrast with those who engage in export farming. On the other hand, cocoa farmers in Ghana lost out to urban consumers and other interests under the populist regimes. Given the fact that peasants form a weak interest group, they often seek to exit from official marketing and engage in smuggling and migration.

ii) Politics of Structural Adjustment

When structural adjustment is introduced, it is normally opposed by trade unions, government employees, student groups, and some urban professional groups such as teachers unions and nurses associations. Labor retrenchment of government employees is one of the least popular programs. While business groups generally welcome free market reform, little support is given to devaluation, trade liberalization or higher interest rates. The beneficiaries of macroeconomic balance are not self-evident while a long term effect takes time. The case of

Ghana is different from the experience of Nigeria where the exporters and other beneficiaries of foreign exchange supported the negotiation of IMF stabilization measures.

In the 1980s, the Provisional National Defence Council (PNDC), organized by Rawlings after 1982 military coup, was not perceived by the Ghanaian business as a strong and unequivocal supporter of the private sector. The revolutionary organs established by the PNDC in early 1982 subjected businessmen, amongst others, to questions, searches, and punishment. The anti-capitalist rhetoric in 1981 and 1982 remains a vivid memory to the Ghanaian business class. More importantly, however, as AGI (the Association of Ghana Industries) complained, the main concern of the business community is that private capital has been adversely affected by some of the policy reforms implemented under the ERP. Massive devaluation of *cedi*--from 2.75 per dollar in 1983 to over 390 per dollar in 1991--created a severe liquidity crisis. The problem was compounded by high interest rates in an attempt to curb inflation. Indigenous businesses had to borrow money at rates of over 30 per cent. For some import-substitution manufacturing firms (garments, leather-processing, cosmetics, plastics), the situation has become worse with the competition from imported goods under the liberalized trade system. In addition, a bulk of inflows of foreign private investment went into extractive industries rather than manufacturing sectors.

In order to overcome the business mistrust and to show its pro-private enterprise credentials, the government took a tough line on wage bargaining and adopted a liberal fiscal policy supported by financial assistance from various donors. In addition, active consultation with the private sector was initiated to remove the remaining obstacles to investment. The Chairman of the largest business group in Ghana, U.A.C. Limited, was included as a member of the government's official delegation to the 1992 Consultative Group meeting in Paris (Tangri, 1992). Overall, the government has been willing to make compromises in dealing with the private sector.

Recently funds have been obtained to support business concerns from the World Bank. Timber processing companies have received a government guaranteed loan of over $60 million to rehabilitate saw-milling plants and equipment, while support has also been provided for several small and medium scale manufacturing and agro-processing enterprises. Actions to develop capital markets were also taken, including the 1990 opening of a stock exchange. The government is assisted by the Bank to undertake studies of the financial needs of, and the impact of trade liberalization, on the manufacturing industry. All these policies reflect the seriousness of the PNDC's decision to promote a more secure and friendly environment for business (World Bank, 1991b). In its report to the Consultative Group for Ghana, the Government stated that private investment promotion will be accorded the highest priority (World Bank, 1991a).

In contrast with its relations with the business groups, the government was more willing to use repressive measures in dealing with social opposition from labor. In the highly repressive atmosphere of 1984-87, Rawlings resorted to harsh suppression of the regime's opponents to pursue unpopular austerity programs (Adjei, 1993). In 1985, Cocobod laid off 20,000 workers, ignoring previously negotiated collective agreements and labor laws. In addition, the government unilaterally canceled favorable ratio of leave allowances to labor and froze the payment of retirement benefits in 1986. In response to increasing criticisms and protests, the PNDC use such repressive measures as detention of critics. Special legislation imposed settlement terms and barred any judicial challenges to the mass dismissals.

Despite the use of armed forces, Rawlings could not prevent or deter labor strikes and demonstrations. In addition, Trade Union Congress (TUC) was supported by white collar organization such as the National Association of Teachers, the Registered Nurses's Association, and the Civil Servants' Association. They created the Consultative National Forum of Ghana Labour (CNFGL), a common forum for consultations and deliberation. Through this forum, workers' protest against the PNDC's cancellation of leave allowances acquired a national character (Akwetey, 1994:89). The threat of a national strike in 1986-7, supported by trade unions of 450,000 members, eventually made the government restore the leave allowances.

In response to the PNDC's arbitrary decision making, the TUC demanded participation in decision making. By the late 1980s, labor gained access to the decision making institutions of industrial relations with the reactivation of the tripartite fora and the creation of bilateral consultative machineries. However, the access to decision makers was not translated into improved material conditions of workers. By 1991, the conflict between the PNDC and TUC has more to do with substantive issues of wages and living conditions. The bilateral consultative machinery did not yield much to the TUC. Trade unions continue to use labor disputes to effectively challenge government economic strategies.

Transition from the PNDC military rule to the National Democratic Congress (NDC) government after the November presidential and December parliamentary elections in 1992 changed the policy making environment of economic reform. Though Rawlings succeeded in maintaining his power, his government has faced more difficulty in using arbitrary measures to crack down opposition. The government's battle with university lecturers and employees of state owned banks as well as Cocobod workers is a test case in understanding its ability to implement public sector reform which was pressed by the World Bank. Under democratic rule, the public more effectively challenged the government's efforts to maintain macroeconomic balance such as the doubling of fuel prices in 1993 and reduction in severance pay liabilities for retrenched public sector workers. The government proposal for tax hikes in May 1995 ended up with being quickly scrapped after it was approved by the ruling party dominated parliament. The issue united opposition parties with trade unions and small businesses. It also highlighted the divisions within the ruling party which led to the resignation of Finance Minister Botchwey who was the main architect of structural adjustment programs.

While Accra is extremely keen to satisfy the demand of the donor community for privatization of state industries, the further retrenchment of state employees and the reduction in the government budget deficit cannot continue without concessions to workers in order to maintain social stability (Jeong, 1995a). The Rawlings government needs to make attempts to appease the electorate in the November 1996 presidential election. The continuation of adjustment reform can be influenced by the government's ability to compensate material loss for urban middle and low income classes whose subsistence is threatened by measures to control inflation and reduce government budgets. If economic reform in Ghana is to proceed under democratic conditions, distributional conflicts must be resolved. Democratization is seen by the majority of dissident groups as an instrument for obstructing structural adjustment and protecting their living standards.(Bangura, 1992:67)

Leadership Commitment and Implementation of Reform

The selection of particular development models and strategies is influenced by political and economic interests and ideologies which are represented by politicians. Reform is normally initiated by the state leadership under external pressure. Structural adjustment programs may be more easily implemented when political leaders are strongly committed to liberal economic policies and willing to deal with popular opposition to those policies. State preference for policy reform depends on interest in system maintenance and organizational capacity as well as a general ideological orientation of the political leadership.(Healey, 1992:20) Successful economic policy makers would be able not only to understand economic issues and systematic characteristics of the policy and but also to adapt economic objectives to the requirements of national politics (Berry, 1990:1124).

Political will and bureaucratic capability are important for properly implementing and enforcing many, if not all, of economic adjustment measures. Leaders who fail to impose these policies demonstrate their political weakness in forcing the costs of adjustment onto society (Lehman, 1993). In addition, the failure of structural adjustment is often ascribed to administrative decay and poor design and sequencing of reforms (World Bank, 1994). In particular, many economic reforms, including those aimed at expanding the role of market forces, demand administrative and technical capabilities that are in short supply in developing countries. Especially, deficient are adequate education among middle and low level personnel; specialized training for higher level and technical staff; and information gathering, processing, and communication capabilities.

i) Pre-PNDC Experience

Politicians may be concerned with regime survival but have different ideological orientations toward liberal economic policies. The behavior of Ghanaian politicians shows a mixture of different mind-sets and strategic notions. Some leaders such as Busia were more oriented toward liberal economic ideas than others. Other Ghanaian leaders, especially Nkrumah, were motivated by internalized policy making and a strong feeling of independence, and asserted national control over economic policies and management. As politicians in the Progressive Party government did in the early 1970s, some leaders tried to build new coalitions to carry out liberal economic reforms. Others prefer socialist projects which emphasize mass mobilization.

Due to weak support, most Ghanaian governments before the PNDC were reluctant to take drastic economic measures which could hurt popular economic interests. The Progress Party Government of Busia had won a solid majority in Parliament. The return to representative democracy and Busia's popularity at home and abroad allowed the government to introduce some strict measures to save the economy. The Busia government eliminated a sizable number of civil servants, introduced new student loan programs, refused to raise the minimum wage, and froze the assets of the Trade Union Congress. In addition, the imposition of the National Development Levy was designed to shift the tax burden for rural development from farmers to workers.

Both as labor retrenchment was not helpful in reducing government spending and as the cocoa prices did not respond to devaluation, the regime lost faith in stabilization. In December of 1971, however, Busia yielded to the IMF demands and devalued the *cedi*. When the government was unable to pay for farmer's cocoa in 1971, farmers quietly withdrew their support out of frustration. The short-lived regime of the Progress Party, led by Kofi Busia, illustrated difficulties that democratically elected regimes encounter in implementing Fund stabilization programs. Whereas the government agreed, in principle, on stabilization measures, it refused to undertake any more than one nominal devaluation even though the real value of the exchange rate dropped sharply. Stringent economic measures introduced after a dramatic fall of the world price of cocoa created tense conflict that led to fall of the Busia regime in January 1972. These policies allowed the military to take advantage of the regime's slipping support.

Despite its commitment to liberal economic reform, the government of the People's National Party (1979-1981), led by President Limann, was surprisingly resistant to external pressures for the implementation of stabilization measures. Even though the Limann administration increased the producer price of cocoa and the price of petroleum products, it was, on the whole, very hesitant and skeptical about the soundness of the entire IMF package of reforms. The president's public views on the question of IMF policies were reflected in the frequent dismissals of pro-IMF ministers from the government.

Regarding devaluations, President Limann was reported to have said, "Ghana has had four devaluations and each was followed by social explosions including executions."(Jonah, 1989b:109) The president believed that devaluation had failed to pass the test each time it had been tried in the country. Since not all forms of Ghana's productive activities were dependent on external resources, he was highly doubtful of the relevance of devaluation to the country's economic problems.

He also argued, "Every action must be related to the social climate...The government is a major employer and we are dealing with human beings, we cannot simply carry out a massive dismissal of workers."(Jonah, 1989b:110) Faced with the potentially negative social and political repercussion of an IMF package, this democratically elected government opted for caution and procrastination in its relation with the Fund. The refusal of the government to fully comply with Fund prescriptions was based on hard political and social facts. It was also based on the weakness of state institutions to administer an austerity program which would be likely to provoke a severe social and political backlash.

Consensus on stabilization programs within the government is often weak or difficult to maintain. During the rule of the National Liberation Council (NLC) in the late 1960s which adopted IMF stabilization measures, there were differences on the scope and extent of stabilization measures. The Economic Committee comprised of technocrats placed a higher priority on the achievement of macroeconomic equilibrium than on improvement in income distribution. Contrary to that, the Political Committee opposed the elimination of subsidies to agricultural production and supported import restrictions and self-sufficiency to ease Ghana's dependence on foreign exchange (Stryker, 1990:252). They also supported the preservation of some state owned enterprises.

In their discussion of economic stabilization, the Political Committee and the Economic Committee differed in terms of political interests and ideological orientation. The Political Committee was oriented to economic nationalism and wanted to preserve some aspects of Nkrumah regime's nationalistic economic policies. The Economic Committee, which was mainly interested in macroeconomic balance, supported rapid implementation of IMF measures and advocated the sales of state enterprises to foreign private groups. The NLC's policy making body thus did not allow unimpeded implementation of Fund programs.

The experience before the Rawlings regime shows that stabilization and other reform measures face a double challenge in democracies. They have to be economically effective and politically feasible. A sound economic strategy addresses itself explicitly to the issue of whether reforms will be supported as the costs set in. However, both Busia and Lemann governments failed to persuade people to support tough economic measures as material deprivation increased. Appeasement is the alternative to repression or co-optation, but due to economic instability, the state elite did not have enough resources to seek support from the most powerfully organized interest groups.

ii) The PNDC Commitment to Structural Adjustment and Technocratic Capacity

Economic policy choices for the PNDC in the early 1980s were limited by the structural weakness of the economy. The failure of economic policies of previous regimes caused balance of payments and deficit problems, and it made the adoption of IMF and World Bank sponsored structural adjustment policies inevitable. The adoption of the ERP resulted in the change in the role of the Ghanaian state in the economy. More dependence of the Ghanaian economy on external economic forces was unavoidable especially after the failure of self-reliance strategies. The leadership commitment has been one of main key factors which helped sustain liberal economic policies. However, this should be understood in the broad context of the changing role of a state in economic reform.

When it took over power in 1982 after overthrowing the Limann government, the PNDC's initial priority was to disorganize and reconstitute market economic institutions to incorporate the masses. Mass mobilization was used as a means to provide a credible basis for reorganization of the economic system (Ninsin, 1990:136). However, the mass mobilization was given up soon after the economy got worse. In the midst of economic chaos, Rawlings, who chaired the PNDC, had no choice but to attempt to re-orient its economic policies for international assistance and regime survival (Mikell, 1989:234-235).

The fact that the PNDC abandoned its strategy of militant mass mobilization could be seen as a logical imperative stemming from inherent limitations of its populist policy. The regime did not have any social base needed to initiate economic reforms in response to internal economic and political crisis. The adoption of structural adjustment requires the creation of political atmosphere conducive to a proper utilization of external resources. The creation of those conditions meant curbing the militant, anti-imperialist and democratic mass movement. Thus, in political and economic domains, there was a move away from the rampant populist rhetoric and policies espoused in 1982 to a realignment of institutional processes by 1984 (Hutchful, 1989).

Such policies as the elimination of most price controls in 1984-5 and the easing of regulations on layoffs were enthusiastically implemented by a small group of Ghanaian technocrats. Rawlings gave professional managers and technocrats wide latitude to restore the effectiveness of state economy and profitability of industries. Professionals and technocrats running ministries were protected from outside political intervention in implementing policies (Kraus, 1987:207).

Political instability generates an erratic policy making mechanism. In Ghana, since 1982, the trend seems to emphasize a congruence of the dominant ideological viewpoint in the government on the one hand and the dominant ideological tendencies in the Ghanaian social structure on the other. Rawlings himself has acknowledged that economics cannot be divorced from politics and that political stability is a major pillar on which every nation rests its economic prosperity. The PNDC has often been hailed as demonstrating a high level of political commitment to adjustment policies (World Bank, 1991a). Rawlings insists that Ghana will continue to pursue the ERP whereas he admits that Ghana's economic development should be in accordance with the conditions of the country (Ankomah, 1991:22).

In addition to the leadership commitment, sound economic management requires the existence of local capacity. Designing responsible medium-term policies is not possible without strengthening institutional and procedural capabilities (Bangura, et al., 1992). The stress of the administrative system in Ghana was caused by the exodus of skilled and experienced senior administrators under previous regimes. Due to this weakness, the ERP generated a real, quite visible, and near constant presence of IMF and World Bank personnel, visiting missions, hired consultants, and seconded bureaucrats and managers. However, the fragile public administration system of the state has been further weakened by the external intervention in policy implementation. The handful of key officials with not much authority and competence have to spend all their time coping with short term targets and negotiating with external agencies.

Government officials were overburdened by IMF and World Bank missions and consultants who make a number of demands for one policy analysis. There are frequent overlaps in the work of numerous policy review, pre-appraisal, appraisal and post-appraisal missions and consulting firms, which, around or at the same time, visit the country before and after making loans and credits. In 1985, for example, when an education sector study mission from the World Bank was in Ghana, a Dutch consulting company came to study the Public Enterprise Sector. At the same time, the Industrial Sector Review, the Public Expenditure, Industrial Rehabilitation Project pre-appraisal missions were also present in the country. One credit or sector adjustment program may take a number of missions. The educational sector adjustment, for example, has led to about more than half a dozen missions for preliminary research (March 1985), education sector study (May-June 1985), policy review (September-June 1985), pre-appraisal (January- February 1986), appraisal (March 1986), and post-appraisal (May 1986). These do not include visits of government officials to Washington for consultation or advice. The multiplicity of missions cost much time and money and caused strains on the government[3] (Jonah, 1989a:151).

International financial institutions argue that expatriate personnel and their skills were necessary to ensure that their funds were used wisely. They also insist that, without much of this expatriate work, the ERP would not have progressed very far. They seem to believe that Ghana does not have enough ability to absorb effectively its newly increased amounts of external resources (Callaghy, 1990:285). Given insufficient local technical specialties, the whole recovery effort was a high conditionality process. Constant international intervention and supervision undermine the legitimacy of the state claim to own economic reform. It is often argued that given the problems of collective action, reform initiatives are more likely to succeed where and when political institutions insulate politicians and their technocratic allies from particular interest group constraints, at least in the short run (Healey, 1992:19). The consolidation of reform involves stabilizing expectations around a new set of incentives and convincing economic agents that they cannot be reversed at the discretion of individual decision makers. The institutionalization of a policy making process and building of implementation capacity remain challenges to the future success of reform.

Relations with International Financial Institutions

State ability to negotiate with donors has an important impact on the degree and speed of reform. International financial institutions are less concerned about implications of any economic measures for change in the distribution of economic wealth (van der Geest, 1994). Multilaterals normally do not agree with partial economic stabilization measures. Since negotiations with donors often represent power imbalance, most poor countries either accept orthodox liberal economic policy in return for financial assistance, or refuse to implement any kind of economic adjustment.

Economic policy of indebted countries, especially small less developed ones, is influenced by international linkages due to the lack of technical expertise and the urgent funding need of the national government. The World Bank argues that only a handful of African countries have a political system that encourages sustained economic growth and the systematic implementation of rational economic and financial management (Killick, 1993). It holds that despite the severe external macro-economic shocks of the last 15 years, African governments have not accorded political priority to adjusting their economic policies along rational lines. Nor have they shown much interest in exploiting their own capacity to formulate or implement economic policies or in improving their local analytical capacity (World Bank, 1994). Thus the lack of economic policy making capacity leads to justification of external intervention in African economy.

Financial, political and ideological power is exercised by creditors through the constitution of the broad rules of the game. Where private sector beneficiaries of reform are scattered or politically weak, as in Ghana and Bolivia, the consolidation of reform, to a great extent, depends on outside support and pressure. In Ghana, strong support from international financial institutions has been important to the institutionalization of market reforms (Hutchful, 1994). The IMF and World Bank intervention dramatically changed not only the balance between political forces but also the direction of the discourse on economic development. The alliance of domestic economic technocrats and foreign capital pursue the subordination of labor and the application of market principles to the utilization of resources.

i) Relations of the World Bank and the IMF to Various Governments before 1982

Ghana's relations with the IMF and the World Bank have passed through many stages. The relationship between various Ghanaian governments and international financial institutions ranges from full submission of its economic making power to defiance. In contrast with an initial position of stubborn resistance to the Fund during the Nkrumah years, Ghana fully embraced IMF policies and collaborated with the World Bank on almost every aspect of economic policy during the Busia government in the early 1970s. The change in the attitude of Ghana toward international financial institutions can be attributed to political and economic changes within Ghana (Jonah, 1989b:113).

Regardless of different economic circumstances, Fund recommendations to deal with macro economic crisis of Ghana were similar. They normally included financial disciplines such as balance between government revenues and expenditures, and the elimination of subsidies to state industries. They also emphasized reductions in consumption demand, increase in cocoa producer prices, and elimination of import licensing. Whereas the compromise of sovereignty was inevitable to implement those policies, debt relief was conditional on the implementation of those Fund programs.

The Nkrumah government had a tense relationship with international financial institutions when the government was not willing to implement Fund and Bank recommended measures which require the reduction, or even the total stoppage, of certain social and development programs and the relaxation of its control over the economy. As a result, Western sources of credit were closed, and the country's economic difficulties assumed critical dimensions. The tense relationship between the Nkrumah regime and the Fund was the consequence of the regime's refusal to compromise on what it considered to be its socialist principles and strategy of development. In the government's view, the strategy of development, its socialism, politics and sovereignty were at stake with the external intervention. From the viewpoint of the Fund, however, the government had become a big political obstacle to 'sound' economic policies.

The Fund and Bank recommendations were fully accepted by the National Liberation Council (1967-1970) and Busia's Progressive Party (1969-1972). In particular, the Progressive Party government gave the *de facto* control of economic decision making power to Fund-Bank staff. The experts and advisors sponsored by the Bank and the Fund were placed in major economic ministries and cabinet secretariat of the government. They took over the bureaucracy of Ghana and "reorganize it as well as create within it what they consider to be an appropriate structural network for implementing their policies."(Jonah, 1989b:102)

Problems with deficit and balance of payments produced the dependence of the Busia government on international financial assistance. "The depth and duration of the economic crisis have determined the extent of external involvement in the domestic economy. The deeper the crisis, the easier it becomes for foreign capital to assume almost total control of the economy through the mediation of the state."(Ninsen, 1989:38)

After the overthrow of the Busia regime, the government-Fund relationship entered a new phase which was characterized by temporary defiance and non co-operation. The National Redemption Council (NRC) government was able to get concessions on a long term debt rescheduling after its unilateral repudiation of debt in February 1972. However, their economic policies ran against anything the Fund and the Bank had advocated since 1986. The NRC government's attitude is well represented in its refusal even to mention the IMF or its policy guidelines in the debt rescheduling agreement. The uneasy relationship was aggravated by the government's economic nationalism which resulted in taking over foreign owned enterprises. This case shows that the influence of international financial institutions is limited when political elites pursue radical populist economic strategies.

ii) The PNDC's Relations with the World Bank and the IMF

Ghana's recent association with the Fund entails significant changes in political and ideological direction as well as in a development strategy. The PNDC's pursuit of capitalist development strategies is based on alliances with the World Bank and the IMF (Panford, 1994).

Their collaboration was possible not only because the economic crisis had reached a point at which the need for tough measures to reverse the decline had become paramount but also the PNDC gave up a radical populist approach.

In practice, successful collaboration between international financial institutions and Third World Countries needs less nationalistic leadership which is willing to take Fund/Bank advises. The Rawlings regime easily abandoned equitable and egalitarian economic development strategies to get foreign financial assistance (Rimmer, 1992:180). However, some PNDC members opposed the transformation of Ghana into "a laboratory for extensive neo-classic economic experimentation." The implementation of adjustment programs led to dismissal of high ranking officials who believed that the market ideologies of the ERP do not represent the economic interests of the population.[4]

On the other hand, there seem to be somewhat skeptical perceptions of the future of Ghanaian economy even among those who accepted the ERP. While the IMF and the World Bank extol the return to market rationality, some of Rawlings supporters insist that the ERP is a tactical step on the way to the "socialist revolution". The agreement with the IMF was the inevitable "political price" to be paid for securing "as much space as possible" for the revolutionary manoeuvre (Hutchful, 1989:122).

During the first phase of the program (1984-86), political changes in Ghana enabled the PNDC to cooperate more closely with the IMF, to implement such policies as a major devaluation of *cedi*, reduction of government expenditures, and removal of subsidies on utility services. Substantial financial assistance from external donors was offered to support those policies (Killick, 1991). Ghana-IMF collaboration was further strengthened and carried to a higher stage when the government launched the second stage of the Economic Recovery Program.

The relationship between the government and donors is not merely an economic one. It is anchored, to a very large extent, in a solid political framework. Despite the official claim of multilaterals that they are not interested in politics of the countries which they assist, Bank officials privately acknowledge the significance of the right political environment.[5] Financial and intellectual clouts of international financial institutions strengthened the positions of those favoring adjustment (Herbst, 1993:36).

Policy recommendations of the Bank and the Fund are not neutral in effect and are designed to reorient state intervention away from a socialist strategy of development. The implementation of the orthodox adjustment program requires political protection of investors' capital and profits. International financial institutions encourage a greater role of professionals and business groups in economic policy making. Taking a tough line on wage bargaining and adopting a liberal fiscal policy are needed to build the government's pro-private enterprise credentials. Under the latest draft of the investment code, foreign investors would enjoy substantially better tax allowances than Ghanaians.

The external appropriation of policy making power helped the de-politicization of the ERP and displacement of popular participation and mobilization by a narrowly based, bureaucratic management. The political costs of adjustment include the erosion of national sovereignty and the autonomy of the regime. The World Bank's impact has been the highest in small countries with limited state capabilities such as Jamaica and Zambia. Ghana was not an exception (Kahler, 1992:98). As far as economic policies are concerned, what emerged in Accra, the capital of

Ghana, especially during the 1980s, was a parallel government controlled, if not created, by international lender agencies. The level of influence exercised by the World Bank on policy process is, indeed, by all accounts very high. This is the result, in part, of debilitation of the state machinery and the serious shortages of Ghanaian technical personnel.

Many of recent changes in the operations of international financial institutions include closer monitoring efforts, trenching loan disbursements, and insistence on policy actions prior to the disbursement or even negotiation of a loan, the specific delineation of loan conditions, and introduction of tighter cross-conditionality (World Bank, 1991b). These new policies can be interpreted as efforts to overcome strategic dilemmas in enforcing loan conditions.

Tension occasionally arises due to donor pressure for making sweeping cuts in public spending and retrenchment of state employees.[6] In its strategy paper, the Bank argues that 'donor support for reform has made little difference' to the role of the public sector. It says that the government's attitude toward public sector reform 'remains one of ambivalence.' In response to the Bank verdict, the government argues that tens of thousands of public sector and civil service workers were laid off; 37 state-owned enterprises were liquidated; nearly 40 public sector entities, including parts of Cocobod, have been privatized. The government also imposed terms for the payment related to the end of service benefits to retrenched workers.

To achieve high growth levels, the Bank sees a more drastic reduction in the size and role of the public sector and decreases in public expenditures as essential for confirming the private sector's leading role in the economy and for boosting the level of public savings (Kanbur, 1994).[7] The huge budget deficit that the government accumulated to win the 1992 elections has put the Rawlings regime under special pressure to prove its fiscal prudence to its international backers. The Bank and other donors temporarily withheld 170 million dollars of aid in order to control the government's spending.

Up to 1998, the World Bank plans to support the government's growth strategy by providing 1,500 million dollars for 32 projects. but it warns that should the momentum for economic reform be lost 'because of a decline in commitment of the government, perhaps because of political unrest or inability to reach consensus, the proposed operations program would be cut down to 16-18 projects and a total of 800 million for the five years 1994-1998 (Africa Confidential, 1993:4-5). Despite these warnings, the leverage of the Bank is more limited than during the early stage of adjustment. Given mediocre success of adjustment programs in Africa, international financial institutions have a huge stake in the success of reform in Ghana. Government failure to meet implementation schedules of a few projects is not likely to result in the withdrawal of heavy investments of donors.

Conclusion

Theories of political economy stress an understanding of the impact of economic policies on various groups in society as well as the impact that these groups have, in turn, on policy decisions. In Ghana, this feedback mechanism failed to operate as successive regimes increasingly made decisions within a political vacuum because of their isolation from the Ghanaian populace. Binding macroeconomic constraints left virtually no scope for independent decisions (Stryker, 1990:248-249). The Rawlings regime could overcome these difficulties due to an enhanced flow of resources from international donors, an ability to handle powerful political opposition, and internal cohesion of the leadership.

The past experience of Ghana shows that it is more difficult to pursue economic stabilization when the economy has become severely repressed and disorganized. Political risks are always involved in undertaking a formal stabilization program based upon conditional agreements with the IMF, and the World Bank or other sources of external finance. When an organizational basis of state autonomy is weak, it is harder to sustain reform. In addition, state capacity is affected by the degree of bureaucratic insulation and the level of technocratic expertise.

The adoption of adjustment strategies in Ghana is not related to the emergence of dominant ideological or class bases for capitalism but rather reflects the influence of international economic forces. Liberal economic reform inevitably involves some form of austerity measures which cause medium and short term costs. To soften hardships, an enlarged flow of international loans and grants is necessary. Favorable terms for Africa's international debt service obligations are essential conditions for the success of reform.

Difficulty of policy change can be measured by the capability of state elites to anticipate the precise social effects of policy change and to communicate with and persuade powerful interests. The government should weigh up the potential benefits of alternative economic policies (Jeong, 1996; van der Hoeven, et al., 1994). In a democratic political environment, it is a serious question how to create social consensus. As Ghana's former Finance Minister Kwesi Botchwey recently emphasized, the government needs to "do a better job of informing people about structural adjustment and to demonstrate that the sacrifices required for economic recovery are being shared equally."(African Research Bulletin, December 16-January 15 1994:11523)

Effectiveness of adjustment policies can be influenced by the extent to which the government should pursue free market economic reform, types of constraints economic technocrats face, and strategies to overcome the opposition. Rawlings has been so far more determined and has more resources than previous leaders who attempted stabilization measures. However, policy designs on sequencing of reforms need to be improved to protect the economic well-being of urban middle and low income classes (Akuko-Frimpong, 1994). Building extraordinary administrative capacities is linked to strategic necessities of state power to strengthen conditions for reform. For governments to reduce their role in the economy and expand the play of market forces, the state itself may need to be strengthened.

Notes

1. Some argue that no country in Africa achieved sound macro-economic balance. Adjustment alone cannot produce sustained growth (Rimmer, 1995; Schatz, 1994)

2. The initial support for the National Redemption Council which took power from Busia was related to reaction to the previous government's austerity economic measures. More importantly, such programs as "Self-Reliance" and "Operation Feed Yourself" did not bring any immediate adverse effect on any segment of the population. However, the inflation rate went up to 116 percent by 1979 with shortages and higher prices for local food. The final blow

came when the government devalued the cedi by 139 percent and lost whatever justification it had for the 1972 coup.

The coup that toppled the SMC government in 1979 was precipitated by a national uprising. Mass withdrawal of support was caused by widespread dissatisfaction with the management of the economy which led to frequent strikes by students, taxi drivers, nurses and teachers. When the economic conditions began to seriously affect the life style of the elite group, they joined the popular uprising to bring the government down.

3. Consultants contracted by the Bank and Fund are paid far higher than local counterparts. In 1986-88, for example, local consultants were paid $80-20 per month, while foreign consultants received between $3,000 and $5,000 a month (Economic Intelligence Unit, 1990:16).

4. The highly secret nature of program negotiation generated the demand for public debate even within the government. Rawlings had to repress the activities of grassroots organizations--created by leaders of his populist movements--which were engaged in popular participation in various sectors of the economy.

5. Interview with a Bank official on December 7, 1990.

6. Slippage in the implementation of World Bank loan agreements is often evident in institutional reform which requires change on a broad scale such as the abolishment of the Cocoa Board (Toye, 1992:95). This is not unique in Ghana.

7. The government's attempted to unilaterally cut the severance pay-off to the Cocobod workers, from the equivalent of two years to six months pay. However, the Bank argues that end of service benefit claims by workers have not only slowed down the pace of privatization but also burdened public expenditure.

References

Adjei, Mike, Death and Pain: Rawlings' Ghana: the Inside Story. London: Black Line Publishing. 1993.

Africa Confidential. "Ghana: Striking at the State." Vol. 34. No. 9. 24 September 1993. pp. 4-5.

Akwetey, Emmanuel Obliteifio, Trade Unions and Democratisation: A Comparative Study of Zambia and Ghana, University of Stockholm, 1994.

Akuko-Frimpong, H. "Ghana: Capacity Building for Policy Change." in Louis A. Picard, et al. eds. Policy Reform for Sustainable Development in Africa: The Institutional Imperative. Boulder: Lynne Rienner. 1994. pp. 19-35.

Ankomah, Baffour. "Ghana: Is the IMF Honeymoon Over?" African Business. March 1991.

Bangura, Yusuf and Peter Gibbon. "Adjustment, Authoritarianism and Democracy: An Introduction to Some Conceptual and Empirical Issues." in Peter Gibbon, et al. eds. Authoritarianism, Democracy, and Adjustment. Uppsala: The Scandinavian Institute of African Studies. pp. 7-38. 1992.

Berry, Suman, "Economic Policy Reform in Developing Countries: the Role and Management of Political Factors," World Development, Vol. 18, No. 8, 1990, pp. 1123-1131.

Biersteker, Thomas. "Reducing the Role of the State in the Economy: A Conceptual Exploration of IMF and World Bank Prescriptions," International Studies Quarterly, Vol. 34, No. 4, December, 1990, pp. 477-492.

Callaghy, T. M. "Lost Between State and Market: The Politics of Economic Adjustment in Ghana, Zambia, and Nigeria," Nelson, Joan M.(ed.), Economic Crisis and Policy Choice: the Politics of Adlustment in the Third World. Princeton: New Jersey. 1990. pp. 257-320.

Cornia, Giovanni Andrea, Rolph van der Hoeven and Thandika Mkandawire. "Overview of an Alternative Long-Term Development Strategy," in Cornia, Giovanni Andrea, Rolph van der Hoeven and Thandika Mkandawire, eds. Africa's Recovery in the 1990s. New York: St. Martin's Press. 1992. pp. 159-91.

Drah, F.K. "Civil Society and the Transition to Pluralist Democracy." in Kwame A. Ninsin and F.K. Drah. eds. Political Parties and Democracy in Ghana's Fourth Republic. Accra, Ghana: Woeli Publishing Services. 1993.

Economic Intelligence Unit (based in London). Ghana Country Report. No. 1. 1990.

Evans, Peter, "The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change," in Stephan Haggard and Robert R. Kaufman, eds. The Politics of Economic Adjustment: International Constraints, Distributive Conflicts, and the State, Princeton: Princeton University Press, 1992, pp. 139-181.

Fortman, Bas de Gaay. "Conceptualizing Democracy in an African Context." Quest. Vol. 8. No.1. 1994. pp. 61-75.

Fatton Jr., Robert. "Africa in the Age of Democratization: The Civic Limitations of Civil Society." African Studies Review. Vol. 38. No. 2. September 1995. pp. 67-101.

Frimpong-Ansah, Jonathan H. The Vampire State in Africa: the Political Economy of Decline in Ghana. Trenton, NJ: Africa World Press, Inc., 1992.

Gibbon, Peter, "The World Bank and African Poverty, 1973-91," The Journal of Modern African Studies, Vol. 30, No. 2, June 1992, pp. 193-220.

Graham, Yao. "From GTP to Assene: Aspects of Industrial Working Class Struggles in Ghana 1982 - 1986." Ninsin and Hansen (eds.), The State, Development and Politics in Ghana. Dakar: Dodresia Book. 1989. pp. 43-71.

Green, R. H., Stabilization and Adjustment Policies and Programmes: Country Study 1. Ghana. Helsinki, Finland: World Institute for Development Economics Research. 1988.

Gyimah-Boadi, E. ed. Ghana under PNDC Rule. Senegal: Codesria. 1993

Harbeson, John W. et al. Civil Society and the State in Africa. Boulder: Lynne Rienner Publishers. 1994.

Healey, John and Mark Robinson, Democracy, Governance and Economic Policy: Sub-Saharan Africa in Comparative Perspective. London: Overseas Development Institute, 1992.

Herbst, Jeffrey. "The Dilemmas of Explaining Political Upheaval: Ghana in Comparative Perspective." in Jennifer A. Widner. ed. Economic Change and Political Liberalization in Sub-Saharan Africa. Baltimore: The Johns Hopkins Press. 1994. pp. 182-198.

Herbst, Jeffrey, The Politics of Reform in Ghana, 1982-1991. Berkeley: University of California Press. 1993.

Hutchful, Eboe, "Smoke and Mirrors: the World Bank's Social Dimensions of Adjustment Programme," Review of African Political Economy, 1994, Vol. 21, No. 62, pp. 569-584.

Hutchful, Eboe. "From 'Revolution' to Monetarism: the Economics and Politics of the Adjustment Programme in Ghana," Bonnie K. Campbell and John Loxley (eds), Structural Adjustment in Africa. New York: St. Martin's Press, 1989. pp.92-131.

IMF, Ghana: Statistical Annex, Staff Country Report, No. 95/77, IMF: Washington, D.C., 1995.

Jeong, Ho-Won, "Political Economy of African Development," Transnational Associations, No. 1, 1996, pp. 18-21.

Jeong, Ho-Won, "Liberal Economic Reform in Ghana: A Contested Political Agenda," Africa Today, Vol. 42, No. 4, 1995a, pp. 82-105.

Jeong, Ho-Won, "The Political Economy of Structural Adjustment: A Critical Review of World Bank and IMF Policies," The Journal of International Studies, No. 36, June 1995b, pp. 77-94.

Jonah, Kwesi. "The Social Impact of Ghana's Adjustment Programme, 1983-86." Bade Onimode (ed), The IMF, the World Bank and the African Debt. London: the Institute for African Alternatives. 1989a.

Jonah, Kwesi. "Changing Relations between the IMF and the Government of Ghana," Emmanuel Hansen and Kwame A. Ninsen (eds). The State, Development and Politics in Ghana. Dakar: Codesria Book. 1989b. pp. 94-115.

Jefferies, Richard and Clare Thomas. "The Ghanaian Elections of 1992." African Affairs. July 1993. pp. 331-366.

Kahler, Michael. "External Influence, Conditionality, and the Politics of Adjustment." in Stephan Haggard and Robert R. Kaufman, eds. The Politics of Economic Adjustment: International Constraints, Distributive Conflicts, and the State, Princeton: Princeton University Press, 1992, pp. 89-138.

Kanbur, Ravi. Welfare Economics, Political Economy, and Policy Reform in Ghana. Policy Research Working Paper No. 1381. The World Bank. 1994.

Killick, Tony, The Adaptive Economy: Adjustment Policies in Small, Low-Income Countries. Washington, D.C.: the World Bank, 1993.

Killick, Tony. Working Paper 48. Country Experiences with IMF Programmes in the 1980s. London, England: Overseas Development Institute, 1991.

Kraus, Jon. "Ghana's Shift from Radical Populism", Current History, Vol.86, no.520. May 1987. pp. 205-8, 227-8.

Lehman, Howard P. Indebted Development: Strategic Bargaining and Economic Adjustment in the Third World. New York: St. Martin's Press. 1993.

Mikell, Gwendolyn. Cocoa and Chaos in Ghana. New York: Paragon House. 1989.

Mosley, Paul, Jane Harrigan and John Toye. Aid and Power: The World Bank and Policy-based Lending. Volume 2. Case Studies. London: Routledge. 1991.

Nelson, Joan, ed. Economic Crisis and Policy Choice: the Politics of Adjustment in the Third World. Princeton: Princeton University Press. 1990.

Ninsin, Kwame A. "Ghana under the PNDC: Delinking or Structural Adjustment? Azzam Mahjoub (ed), Adjustment or Delinkinq?: the African Experience. London: Zed Books. 1990.

Ninsin, Kwame A. "State, Capital and Labour Relations, 1969-1987." Emmanuel Hansen and Kwame A. Ninshin (eds), The State, Development and Politics in Ghana. Dodresia. 1989. pp. 15-42.

Nyang'oro, Julius E. "Reform Politics and the Democratization Process in Africa." African Studies Review. Vol. 37. No. 1. April 1994. pp. 133-150.

Oquaye, Mike. "The Ghanaian Elections of 1992." African Affairs. Vol. 94. 1995. p. 260.

Panford, Kwamina. "Structural Adjustment, the State and Workers in Ghana." Africa Development. Vol. 19. No. 2. 1994. pp. 71-93.

Rimmer, Douglas. "Adjustment Blues" African Affairs. Vol. 94. No. 374. January 1995.

Rimmer, Douglas. Stayinq Poor: Ghana's Political Economy, 1950- 1990. Oxford: Pergamon Press. 1992.

Rothchild, Donald. "Rawlings and the Engineering of Legitimacy in Ghana." in William Zartman, ed. Collapsed States: The Disintegration and Restoration of Legitimate Authority. Boulder: Lynne Rienner, 1995.

Rothchild, Donald. ed. Ghana: The Political Economy of Recovery. Boulder: Lynne Rienner Publishers. 1991.

Sawyere, Akilagpa. "The Politics of Adjustment Policy." Paper for International Conference on "the Human Dimension of Africa's Economic Recovery and Development." Khartum, Sudan. 5-8 March 1988.

Schatz, Sayre P. "Structural Adjustment in Africa: A Failing Grade So Far." The Journal of

Modern African Studies. Vol. 32. No. 4. December 1994. pp. 679-692.

Shaw, Timothy, Reformism and Revisionism in Africa's Political Economy in the 1990s: the Dialectics of Adjustment. London: St. Martin's Press, 1993.

Sepehri, Ardeshir, "Back to the Future?: A Critical Review of Adjustment in Africa: Reforms, Results and the Road Ahead," Review of African Political Economy, Vol. 21, No. 62, 1994, pp. 559-568.

Stryker, J. Dirck. Trade, Exchange Rate and Agricultural Pricing Policies in Ghana. Washington, D.C.: World Bank. 1990.

Tangri, Roger, "The Politics of Government-Business Relations in Ghana," Journal of Modern African Studies, 30, 1 (1992), pp. 97-111.

Toye, John. "World Bank Policy-Conditioned Loans: How Did They Work in Ghana in the 1980s?" in Chris Milner and A. J. Rayner, eds. Policy Adjustment in Africa: Case-Studies in Economic Development. Vol. 1. 1992. pp. 81-97.

Toye, John. "Interest Group Politics and the Implementation of Adjustment Policies in Sub-Saharan Africa." mimeo. University of Sussex. 1991.

Tsikata, Tsatsu. "The Human Dimension of Africa's Economic Recovery and Development: Ghana's Country Experience." A paper presented at International Conference on the Human Dimension of Africa's Economic Recovery and Development. Kharatum, Sudan. 5-8 March 1988.

Turok, Ben. "What Does the World Bank Mean by Empowering Ordinary People." in The African Response: Adjustment or Transformation. Proceedings of the Institute for African Alternatives. Addis Ababa. 1992.

UNDP, Human Development Report, New York: Oxford University Press, 1992.

van der Hoeven, Rolph and Fred van der Kraaij. Structural Adjustment and Beyond in Sub-Saharan Africa. 1994. Ministry of Foreign Affairs. Hague.

van der Geest, Willem. ed. Negotiating Structural Adjustment in Africa. UNDP. 1994.

Werlin, Herbert, "Ghana and South Korea: Lessons from World Bank Case Studies," Public Administration and Development, Vol. 11, 1991, pp. 245-255.

World Bank. Adjustment in Africa: Reforms, Results and the Road Ahead. New York: Oxford University Press. 1994.

World Bank. "Chairman's Report of Proceedings, Consultative Group for Ghana," August 1991a (Confidential).

World Bank. "Program to Promote Private Investment and Sustained Development," April 1991b (Confidential).

World Bank. The Long Term Perspective Study of Sub-Saharan Africa: Institutional and Sociopolitical Issues. Volume 3. Washington DC:
World Bank. 1990.

World Bank. Successful Development in Africa: Case Studies of Projects, Programs, and Policies. Washington, D.C.: World Bank. 1989.

Young, Crawford. "Democratizaiton and Structural Adjustment: A Political Overview." in Lual Deng, et al., eds. Democratization and Structural Adjustment in the 1990s. African Studies Program. University of Wisconsin-Madison. 1991. pp. 13-20.